



ANNUAL REPORT 2021

michael hill[®]
INTERNATIONAL LIMITED



DISCLAIMER: Certain statements in this report constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and the anticipated or planned financial and operational performance of Michael Hill International Limited and its related bodies corporate (the Group). The words "targets," "believes," "expects," "aims," "intends," "plans," "seeks," "will," "may," "might," "anticipates," "would," "could," "should," "continues," "estimates" or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as the Group's future results of operations; financial condition; working capital, cash flows and capital expenditures; and business strategy, plans and objectives for future operations and events, including those relating to ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Group's actual results, performance, operations or achievements or industry results, to differ materially from any future results, performance, operations or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; the Group's plans or objectives for future operations or products, including the ability to introduce new jewellery and non-jewellery products; the ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the markets in which the Group operates; the protection and strengthening of the Group's intellectual property rights, including patents and trademarks; the future adequacy of the Group's current warehousing, logistics and information technology operations; changes in laws and regulations or any interpretation thereof, applicable to the Group's business; increases to the Group's effective tax rate or other harm to the Group's business as a result of governmental review of the Group's transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced to in this presentation. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Company's actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic. The Group does not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on the Group's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this announcement.

TERMINOLOGY: In this report, unless otherwise specified or appropriate in the context, the term "Company" refers to Michael Hill International Limited, and the terms "Group" or "Michael Hill" refer to the Company and its subsidiaries (as appropriate).

The Directors are pleased to present the annual report of Michael Hill International Limited and its subsidiaries for the year ended 27 June 2021.

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SOLITAIRE AND ENHANCER RINGS FROM THE EVERMORE COLLECTION



**Our purpose:
the people behind the
moments that matter**

Company profile

Michael Hill is an international retail business operating as a leading modern, differentiated, omni-channel jewellery group. As of 27 June 2021, it operates 285 stores across Australia, New Zealand and Canada.



The first Michael Hill store opened in 1979 when Sir Michael Hill and his wife, Lady Christine Hill launched their unique retail jewellery formula in the New Zealand town of Whangarei, some 160 kilometres north of Auckland. With dramatically different store designs, a product range devoted exclusively to accessible jewellery and the clever use of high impact advertising, Michael Hill rapidly gained popularity and rose to national prominence.

Following a successful listing on the New Zealand Stock Exchange in 1987, the Group expanded across the Tasman to Australia. After 15 years of sustained growth in both countries, Michael Hill embraced the opportunity to expand to North America in 2002, opening its first stores in Vancouver, Canada. The Group's Canadian retail presence continues to evolve as does the Group's innovative online presence in all markets in which it operates.

In 2016 Michael Hill moved its primary stock exchange listing to the Australian Securities Exchange and continues to maintain a secondary listing on the New Zealand Stock Exchange (ASX/NZX: MHJ).

As of 27 June 2021, the Group operates 150 stores in Australia, 49 in New Zealand and 86 stores in Canada. Around the world, the Group employs approximately 2,000 permanent employees across retail sales, manufacturing and corporate roles.

From 1979 to the present day, and as we look to the future, one constant underpins all that we do: we're for love. Michael Hill remains committed to creating quality jewellery for our customers to cherish for a lifetime.

Information on our corporate governance policies and practices, including our Corporate Governance Statement, is available on our Investor Centre website at investor.michaelhill.com





We never lose sight of the principles of courage, innovation, quality, design and ambition that Michael Hill was founded on...

Dear Shareholders,



STRONG RESULTS DURING TRADE DISRUPTIONS

I am immensely proud of what the Michael Hill team has delivered over the last twelve months.

From the outset, we were determined that the disruption and uncertainty caused by the pandemic raging around the globe would not distract us

from our transformation agenda and the great progress being made to position Michael Hill as a high performing, modern, differentiated, omni-channel jeweller.

And the results speak for themselves; a record net profit result for the group, strong balance sheet and cash position, reduced inventory levels, increased sales of branded collections, increased stock turn, substantial growth in membership of our loyalty programme, continued strong growth in our digital presence and effective collaboration of our digital, social and physical channels. Daniel will talk more to these achievements in his report.

It is clear that the impact of COVID-19 is not set to abate anytime soon and the agility, adaptability, resilience and perseverance, which enabled such a strong performance over the last 12 months, will continue to drive our strategic and operational momentum into the future.

COMMITMENT TO OUR PEOPLE

The pandemic has brought constant uncertainty and sporadic restrictions on our freedom of movement and ability to socialise, which can be debilitating and overwhelming for many people. It is times such as these, with our people exposed to new and elevated stresses, that our commitment to our core beliefs and values is truly tested.

Throughout the year we have constantly been referencing our values: *We care, We create outstanding experiences, We are professional* and *We are inclusive and diverse* to inform our thinking and drive our decision making. Through every lockdown event and in response to every new COVID-19 protocol that has been mandated, we have responded and engaged with our team to ensure they have the best possible support to adapt to these changes.

First and foremost, our priority has been to ensure that we implement best-in-class health and safety protocols across all facets of our business to keep our people, our customers and our suppliers safe.

It was pleasing to see this commitment recognised with our highest ever employee engagement score in our end of year employee engagement survey. We are incredibly fortunate to have such an experienced and committed team as we navigate these turbulent times.

STRENGTH OF OUR HERITAGE, A FOUNDATION FOR OUR FUTURE

We are constantly evolving our brand position, product offering, customer engagement programmes and business systems at Michael Hill to ensure we remain relevant as a modern, differentiated omni-channel jeweller. But, notwithstanding the transformation programme Daniel is successfully leading, we never lose sight of the principles of courage, innovation, quality, design and ambition that Michael Hill was founded on.

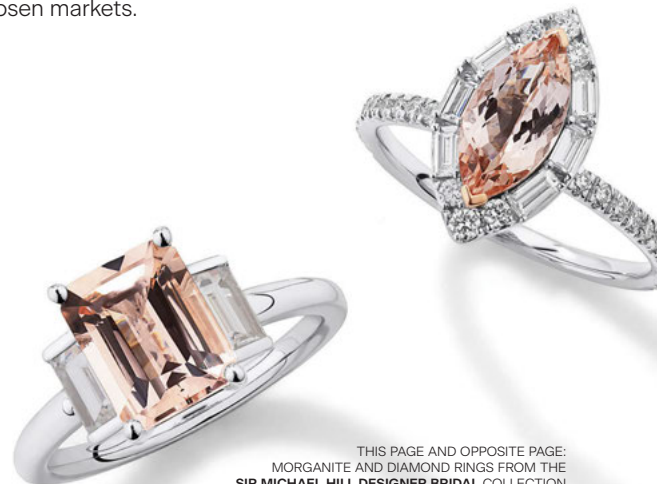
Daniel and his team are doing an outstanding job of fusing our past with our future strategic direction and the strength of the FY21 result demonstrates the traction we are gaining.

OUR BOARD

The Board of Directors is comprised of highly collaborative, capable individuals with deep retail backgrounds and a mix of complementary skills.

We are very fortunate to have Sir Michael, our Founder President, as custodian of our brand, actively contributing both at the Board table and out around our network. The Board and our teams in store continue to benefit enormously from his experience, insights and constant challenge to do better.

At the end of the financial year, Emma Hill decided to retire as Chair and remain as a Non-Executive Director. As an admirer of the Michael Hill brand for many decades, I was honoured to be selected by the Board to succeed Emma as Chair and I now look forward to building on the heritage that Sir Michael and Emma and the entire Hill Family have contributed over the last four decades. Furthermore, Daniel Bracken CEO, joined the Board as Managing Director. I look forward to working with my fellow Directors and the wider Michael Hill team to ensure we continue to execute our strategic transformation and develop and strengthen the Michael Hill brand in our chosen markets.



THIS PAGE AND OPPOSITE PAGE:
MORGANITE AND DIAMOND RINGS FROM THE
SIR MICHAEL HILL DESIGNER BRIDAL COLLECTION



**The business delivered
both strong sales growth
and margin expansion in
all three markets...**

CEO's message

DIVIDENDS

The Board has previously stated its intention to restore dividend payments to historic levels as the pandemic recovery becomes more certain. After taking into consideration business performance, the strength of the balance sheet, and while also recognising the risk of ongoing trading disruption, the Board declared a final dividend of AU3.0¢ per share. This final dividend complements the interim FY20 deferred dividend debt of AU1.5¢ per share and FY21 interim dividend of AU1.5¢ per share, paid earlier in the year and lays the foundation for a sustainable dividend profile going forward, subject to the impacts of ongoing trading disruptions.

IN CONCLUSION

Reflecting on the year, I'm very proud of the dedication, energy and resilience consistently demonstrated throughout the business, and would like to thank every individual and team for their strength and determination in forging ahead and contributing to the successful year for Michael Hill – our business is our people.

I believe the company has a compelling strategy and is well-placed, with a strong balance sheet and a high performing leadership team, to deliver on our growth and transformation agenda, while also exploring new business opportunities.

Regards,



Robert Fyfe
Chair

TRANSFORMATION AGENDA ON TRACK

FY21 has been an outstanding year for Michael Hill, delivering record financial results, with all metrics up. This result is a credit to both the execution of our strategic initiatives and the dedication and resilience of our team.

I'm particularly proud of these results, as they were delivered whilst navigating significant disruption from the global pandemic. Half our Canadian stores were closed for many months, Victorian stores were closed for more than three months and multiple short sharp temporary closures were experienced across our global network resulting in over 10,000 lost store trading days. Pleasingly, due to deliberate planning, the pandemic did not significantly disrupt our inventory supply chain and importantly, the business continued to prioritise the ongoing health, safety and well-being of our team members and our customers.

From a results perspective, the business delivered both strong sales growth and margin expansion in all three markets, further validating the transformation agenda is on track. Our reinvigorated retail leadership demonstrated their commitment to further embedding our retail fundamentals, which saw increases in all key metrics – ATV, IPS and conversion. Our *Brilliance by Michael Hill* loyalty program went from strength to strength, ending the year with over 800,000 members.

Throughout the year we continued to enhance our digital business, which pleasingly, exceeded expectations increasing sales by 53% and delivering yet another record for digital, now 6.3% of total sales. The team also worked tirelessly to roll-out additional omni-channel offerings, including "ship from store", "click and reserve" and "virtual selling".



THREE STONE DIAMOND RINGS FROM
THE SIR MICHAEL HILL DESIGNER BRIDAL COLLECTION



Throughout the year we continued to enhance our digital business, which pleasingly exceeded expectations, increasing sales by 53% ...

It should be noted our transformation agenda touches every single aspect of our business, and I couldn't be happier with how the team is working together to deliver common goals as we further strengthen and elevate the Michael Hill brand.

This outstanding result is the culmination of over two years of hard work, building and executing our strategy. This is best evidenced by eight quarters of comparative sales growth, together with sustained margin expansion.

STRATEGIC UPDATE

Our seven strategic pillars remain firmly in place and continue to focus on the evolution of Michael Hill into a modern, differentiated, omni-channel jewellery group.

- **BRAND:** Elevating the Michael Hill brand, with the introduction of aspirational brand-led campaigns and an emphasis on local craftsmanship and artisans, resulting in higher ATV and margin growth. Our customer facing messaging will be further enhanced by data and insights from our customer segmentation and personalisation programs.
- **DIGITAL:** Building on current momentum, we expect our new initiatives will continue to grow this key strategic pillar. Additionally, new 3rd party digital channels will be explored and expanded to grow our digital footprint. During the year, we also saw the launch of our new pure-play demi-fine brand, Medley.
- **RETAIL FUNDAMENTALS:** Underpinned by revitalised leadership and the new retail incentive scheme, all markets saw an increase across all key retail metrics. Roster optimisation, visual excellence and increased training will continue to be a priority, with additional performance metrics added to our incentive scheme.
- **OMNI-CHANNEL:** Enabled by the roll out of our new ERP platform early in FY21, "ship from store" has delivered many cost and customer experience benefits, while "click and reserve" has contributed sizable incremental sales and in-store upselling opportunities. Having already seen the benefits for ATV in trialling these new customer channels, these initiatives, together with virtual sales and digital appointments will now be progressively rolled out across our global network, along with the launch of "click and collect" for Christmas 2021, delivering incremental sales and enhanced customer experience.

- **LOYALTY:** With over 800,000 members in 18 months, acquisition has been our number one priority for *Brilliance by Michael Hill*. With the use of predicative analytics and increased personalisation, further growth in the business will be driven by opportunities of activation, engagement and retention.
- **PRODUCT EVOLUTION:** This sees a focus on regular product newness, and uniquely Michael Hill branded product as a key differentiator to excite our customers, drive increased sales and margin growth. In the coming years, the Company will increase its emphasis on our Australian craftsmanship, and continue to explore additional sustainable and environmental opportunities.
- **COST CONSCIOUS CULTURE:** The Company's significantly improved net cash and targeted inventory position at year end demonstrate that a cost conscious culture exists across every aspect of the Company. We continue to optimise our supply chain, improve the global store network, and enhance our credit propositions globally.

EXECUTIVE LEADERSHIP TEAM

To support our strategic roadmap and further advance our digital transformation, I'm delighted to welcome Keith Louie, as our first ever Chief Digital Officer. Keith brings a wealth of retail experience, eCommerce leadership and digital strategy to the Michael Hill business.

Keith's appointment, alongside the recent arrivals of Amy Sznicer, Chief Retail Officer, and Jo Feeney, Chief Marketing Officer, adds significant expertise to our already high calibre leadership team.

We have assembled a world-class leadership team at Michael Hill, which is fully committed to our strategy, the transformation and delivering outstanding results.



Daniel Bracken
Managing Director and CEO



FANCY CUT THREE STONE DIAMOND RINGS FROM THE SIR MICHAEL HILL DESIGNER BRIDAL COLLECTION

Performance Highlights

Key Financial Results

STATUTORY NET PROFIT AFTER TAX
INCREASED TO \$45.3m

EARNINGS BEFORE INTEREST AND TAX
(EBIT) INCREASED TO \$72.4m

GROUP OPERATING REVENUES
INCREASED 13.1% TO \$556.5m

GROUP SAME STORE SALES WERE
up 8.6% FOR THE YEAR

GROUP GROSS MARGIN INCREASED BY
210BPS TO 62.7%

MAINTAINED TARGET INVENTORY LEVELS
AT \$171.2m

STRONG BALANCE SHEET WITH A HEALTHY
NET CASH POSITION OF \$72.4m

Operational Performance

DIGITAL SALES INCREASED BY
53.4% TO A RECORD \$34.8m

DIGITAL SALES
REPRESENT 6.3% OF TOTAL SALES

BRILLIANCE BY MICHAEL HILL NOW
over 800,000 members

MICHAEL HILL BRANDED COLLECTION SALES
CLIMB TO 42.1% OF TOTAL SALES

EXTENSIVE TEMPORARY STORE CLOSURES
CULMINATING IN 10,447 LOST TRADING DAYS

ONE NEW STORE OPENED AND SIX
UNDER-PERFORMING STORES WERE CLOSED



Key Facts

	2021 AU\$000	2020 AU\$000	% Change
TRADING RESULTS			
Group revenue	556,486	492,060	13.1%
Gross margin	348,916	298,204	17.0%
Earnings before interest and tax (EBIT)*	72,398	14,079	414.2%
Comparable earnings before interest and tax (EBIT)*	56,594	(5,225)	1,183.1%
Net profit before tax (NPBT)	64,807	4,485	1,345.0%
Net profit after tax (NPAT)	45,328	3,059	1,381.8%

Group trading results

Profit for the year	45,328	3,059	1,381.8%
Net cash inflow from operating activities	143,452	83,699	78.0%

FINANCIAL POSITION

Contributed equity 388,142,149 ordinary shares	11,285	11,016	2.4%
Total equity	193,401	153,806	25.7%
Total assets	508,111	501,618	1.3%
Net (debt) / cash	72,361	523	13,735.8%
Capital expenditure	19,027	17,353	9.6%

KEY RATIOS

	2021	2020
Return on average shareholders funds	26.1%	1.9%
Gross margin	62.7%	60.6%
Interest expense cover (times)	9.5	1.5
Equity ratio (total equity/total assets)	38.1%	30.7%
Working capital ratio (current assets / trade payables)	3.7 : 1	3.0 : 1
Current ratio (current assets/current liabilities)	1.8 : 1	1.4 : 1

DIVIDENDS - including final dividend

Per ordinary share	AU4.5¢	AU1.5¢
Times covered by net profit after tax	2.60	0.53

SHARE PRICE AT YEAR END

AU\$0.83 AU\$0.32

KEY INVESTOR RATIOS

Basic earnings per share	AU11.68¢	AU0.79¢
Diluted earnings per share	AU11.63¢	AU0.79
EBIT to sales	13.0%	2.9%
Return on average total assets	9.0%	0.7%

SAME STORE SALES*

(in local currency)

Australia	13.0%	0.1%
New Zealand	7.1%	2.4%
Canada	6.8%	2.3%
Group same store sales movement	8.6%	2.7%

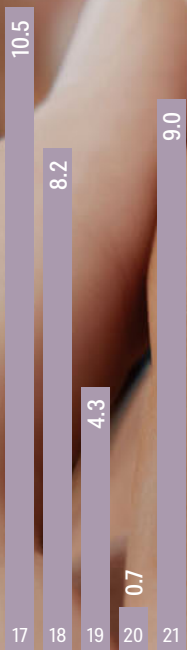
NUMBER OF STORES

Australia	150	155
New Zealand	49	49
Canada	86	86
Total number of Michael Hill stores	285	290

* EBIT, Comparable EBIT and Same Store Sales are Non-IFRS information and are unaudited. Please refer to page 35 for an explanation of Non-IFRS information and a reconciliation of EBIT and Comparable EBIT.



DESIGNER HALO ENGAGEMENT RING
WITH MATCHING PENDANT AND EARRINGS
FROM THE SIR MICHAEL HILL
DESIGNER BRIDAL COLLECTION



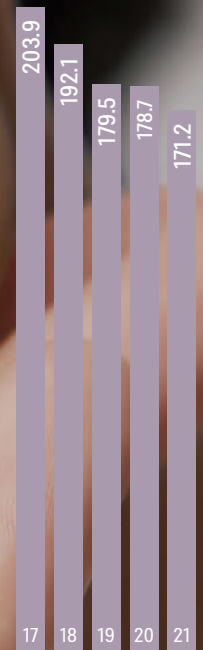
Return on average assets 9%
% / YEAR ENDED 27 JUNE



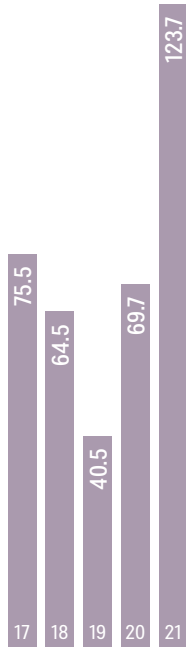
Net profit from operating activities after tax up 1,382%
AUS MILLIONS / YEAR ENDED 27 JUNE



Ordinary dividend
AU CENTS PER SHARE / YEAR ENDED 27 JUNE

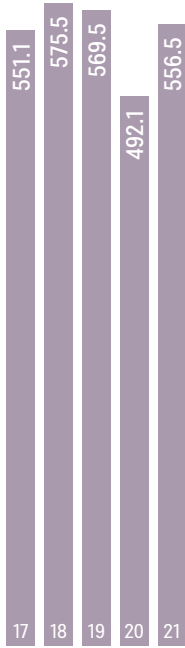


Inventory down 4.4%
AUS MILLIONS / FINANCIAL YEAR



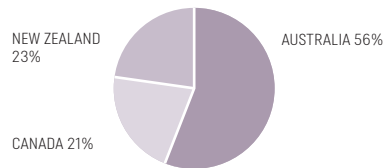
Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 77%

AUS MILLIONS / YEAR ENDED 27 JUNE

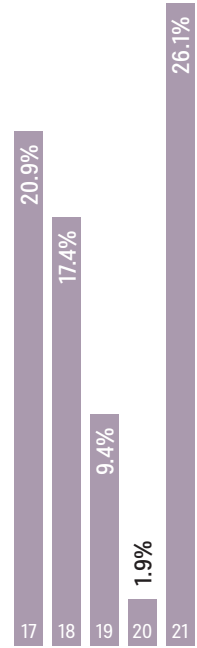


Group revenue up 13%

AUS MILLIONS / YEAR ENDED 27 JUNE



Revenue by country
FINANCIAL YEAR



Return on average shareholders' funds 26.1%

YEAR ENDED 27 JUNE



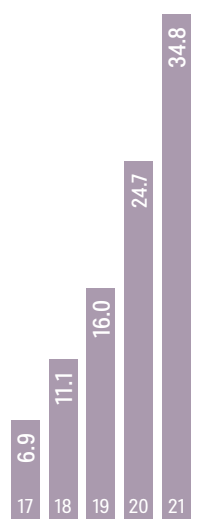
EMERALD CUT SOLITAIRE FROM THE FENIX CREATED DIAMONDS FOR MICHAEL HILL COLLECTION

Trend Statement

	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
FINANCIAL PERFORMANCE					
Group revenue	556,486	492,060	569,500	575,539	551,099
Earnings before interest, tax, depreciation and amortisation (EBITDA)	123,691	69,690	40,481	64,481	75,482
Depreciation and amortisation	51,293	55,611	19,366	18,694	17,427
Earnings before interest and tax (EBIT)	72,398	14,079	21,115	45,787	58,055
Net interest paid	7,591	9,594	2,304	2,680	3,149
Net profit before tax (NPBT)	64,807	4,485	18,811	43,107	54,906
Income tax	19,479	1,426	2,313	11,342	13,769
Net profit after tax (NPAT)	45,328	3,059	16,498	31,765	41,138
Net operating cash flow	143,452	83,699	38,969	54,893	39,752
Ordinary dividends paid	11,636	5,817	19,365	19,371	19,264
FINANCIAL POSITION					
	2021 \$000	2020 \$000	2019 \$000	2018 \$000	2017 \$000
Cash	72,361	11,204	7,923	7,220	5,676
Inventories	171,246	178,742	179,503	192,074	203,853
Other current assets	27,463	31,007	35,878	29,314	29,052
Total current assets	271,070	220,953	223,304	228,608	238,581
Other non-current assets	37,729	57,857	72,742	72,219	83,864
Deferred tax assets	60,585	74,468	67,708	68,022	62,712
Total tangible assets	369,384	353,278	363,754	368,849	385,157
Right-of-use assets	105,882	123,911	-	-	-
Intangible assets	32,845	24,429	15,439	12,626	8,784
Total assets	508,111	501,618	379,193	381,475	393,941
Total current liabilities	151,522	159,405	105,130	108,710	95,716
Non-current borrowings	-	10,681	32,704	35,213	45,034
Lease liabilities	-	115,848	-	-	-
Other long term liabilities	163,188	61,878	64,607	62,627	62,252
Total liabilities	314,710	347,812	202,441	206,550	203,002
Net assets	193,401	153,806	176,752	174,925	190,939
Reserves and retained profits	182,116	142,790	165,768	164,659	180,924
Paid up capital	11,285	11,016	10,984	10,266	10,015
Total shareholder equity	193,401	153,806	176,752	174,925	190,939
Basic earnings per share	11.68¢	0.79¢	4.26¢	8.20¢	10.66¢
Diluted earnings per share	11.63¢	0.79¢	4.25¢	8.19¢	10.66¢
Dividends declared per share - Interim	AU1.5¢	AU1.5¢	AU2.5¢	AU2.5¢	AU2.5¢
- Final	AU3.0¢	-	AU1.5¢	AU2.5¢	AU2.5¢
Net tangible asset backing	\$0.14	\$0.01	\$0.42	\$0.42	\$0.47

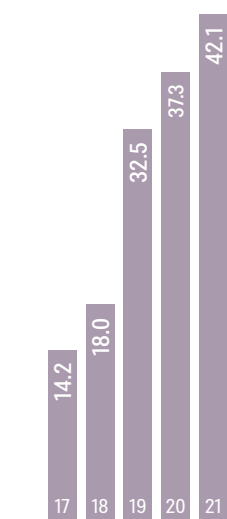
ANALYTICAL INFORMATION

	2021	2020	2019	2018	2017
EBITDA to sales	22.2%	14.2%	7.1%	11.2%	13.7%
EBIT to sales	13.0%	2.9%	3.7%	8.0%	10.5%
Net profit after tax to sales	8.1%	0.6%	2.9%	5.5%	7.5%
EBIT to total assets	14.2%	2.8%	5.6%	12.0%	14.7%
Return on average shareholders funds	26.1%	1.9%	9.4%	17.4%	20.9%
Return on average total assets	9.0%	0.7%	4.3%	8.2%	10.5%
Working capital ratio	3.7 : 1	3.0 : 1	5.0 : 1	4.6 : 1	4.9 : 1
Current ratio	1.8 : 1	1.4 : 1	2.1 : 1	2.1 : 1	2.5 : 1
EBIT interest expense cover	9.5	1.5	8.6	17.0	18.3
Effective tax rate	30.1%	31.8%	12.3%	26.3%	25.1%
Net borrowings to equity	-37.4%	-0.3%	23.5%	27.7%	20.6%
Equity ratio	38.1%	30.7%	46.6%	45.9%	48.5%
Shares issued at year end excl Treasury	388,142,149	387,769,105	387,750,000	387,438,513	387,438,513
Treasury stock at year end	-	-	-	-	14,677
Exchange rate for translating:					
New Zealand results	1.07	1.04	1.06	1.09	1.07
Canadian results	0.95	0.90	0.95	0.98	0.97
United States results	-	-	-	0.78	0.83
Number of Michael Hill stores					
Australia	150	155	167	171	166
New Zealand	49	49	52	52	52
Canada	86	86	86	83	76
USA	-	-	-	-	9
Total number of Michael Hill stores	285	290	305	306	303



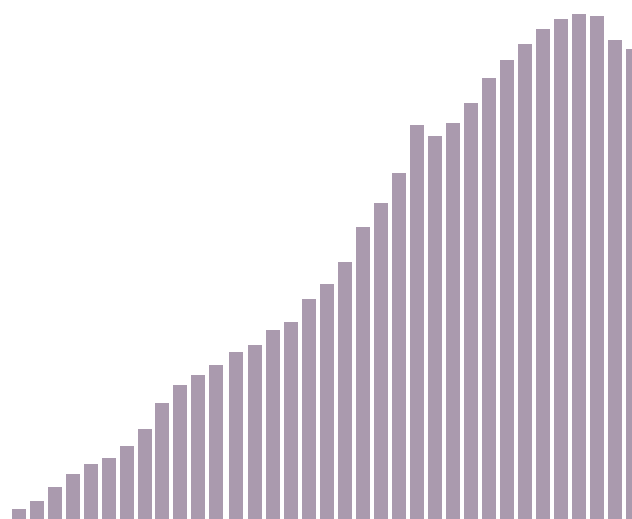
Digital sales up 53%

AU\$ MILLIONS /
FINANCIAL YEAR



Branded collections up 13%

% OF TOTAL SALES /
FINANCIAL YEAR



Total Michael Hill stores 285

1987 - 2021

Sustainability

Michael Hill - the jeweller who cares

At Michael Hill we are consistently striving to be better, and do better for our team, the environment, and our community. We recognise that the decisions we make today are a commitment to a more sustainable future for our planet, and future generations. Sustainability has been recognised as an integral component of our strategic plan. During FY21 we made a positive difference in the communities we serve through delivering initiatives aligned to our three core sustainability pillars: to love our team, love our environment and product, and love our communities – as we believe love changes lives. Aligned with the United Nations (UN) 17 Sustainable Development Goals, our future initiatives will contribute towards vital, global areas for improvement. Committed to developing a strong roadmap towards becoming a more sustainable and ethically responsible business, we will continue to focus on our three core sustainability pillars, to ensure we are protecting our ecosystem and contributing to the communities we serve in meaningful ways, for generations to come.

Overarching Focus Areas



Love our Communities

We strive to have a consistent and positive impact in the global communities we work with and operate in.



Love our Team

Our priority is to create a diverse and inclusive environment which allows our team members to be their authentic selves and feel their growth is recognised and supported.



Love our Environment & Product

We will consistently search for a better way to operate, to benefit and reduce our impact on the environment.

Aligned with Industry Experts

A UNITED EFFORT

As we embark on the next phase of our sustainability journey, we are guided by, and aligned with the UN Sustainable Development Goals (SDG's); 17 global goals adopted by the UN to assist in transforming our world by 2030. The changes implemented at Michael Hill will contribute positive change towards this important global agenda.



RESPONSIBLE JEWELLERY COUNCIL

Michael Hill is a proud member of Responsible Jewellery Council (RJC); the peak industry organisation established to advance responsible business, human rights, social and environmental practices throughout the jewellery and watch supply chain.

Responsible Jewellery Council is the leading standards organisation of the global jewellery and watch industry. RJC members commit to and are independently audited against the RJC Code of Practices – an international standard on responsible business practices for diamonds, coloured gemstones, silver, gold and platinum group metals. The Code of Practices (COP) addresses human rights, labour rights, environmental impact, mining practices, product disclosure and other important aspects of the jewellery supply chain. RJC also works with multi-stakeholder initiatives on responsible sourcing and supply chain due diligence. The RJC's Chain-of-Custody Certification (CoC) for precious metals supports these initiatives and can be used as a tool to deliver broader member and stakeholder benefit. Through the implementation of the COP and CoC members contribute towards the 17 Sustainable Development Goals of the United Nations 2030 agenda.

When a customer chooses to buy from an RJC certified member, including Michael Hill, they are choosing a company that is recognised for its ongoing commitment to put people and our planet first. At Michael Hill, we work to ensure responsibility is at the forefront of our strategic initiatives, demonstrated in our day-to-day operations, business planning activities and decision-making processes. In close consultation with the RJC Code of Practices, we remain committed to providing special jewellery pieces worthy of celebrating love. We continue to explore new materials, innovative processes and the latest technologies that are shaping and evolving the jewellery industry towards a more sustainable and ethically responsible future.



THIS PAGE & OPPOSITE PAGE:
MORGANITE AND DIAMOND RINGS
FROM THE SIR MICHAEL HILL
DESIGNER BRIDAL COLLECTION



RESPONSIBLE
JEWELLERY
COUNCIL

CERTIFIED MEMBER
0 0 0 0 1 5 5 7

"I would like to congratulate Michael Hill on their certification. We work in an industry of beauty and emotions - connecting hearts and minds. Consumers always expect trust when they buy a piece of jewellery to celebrate a significant moment in their lives. In this era of trust and resilience, now more than ever there is a need for more companies to inspire, take action and commit towards a journey of purpose, and continuous improvement. RJC supports its members in an integrated approach of best management practices to sustainability. We welcome their leadership and commitment towards responsible business practices."

Iris Van der Veken
Executive Director
Responsible Jewellery Council



Love our Communities

SUPPLY CHAIN TRANSPARENCY

From the sourcing of our diamonds, precious stones and precious metals, to our retail stores, Michael Hill respects and promotes human rights at every step of our supply chain. We work closely with suppliers to remain at the forefront of innovation and technology, continually advancing supply chain transparency. Our customers can be assured they are purchasing special jewellery pieces that have been ethically sourced.

In FY20, Michael Hill launched a web-based platform to collect supplier data and identify modern slavery risks and solutions in our supply chain. The platform assists with gathering information regarding the operational and procurement practices of direct suppliers via an online Ethical Supply Chain Assessment, and the results then drive more detailed audit processes.

1. Michael Hill has engaged its top 67 suppliers (wholesale, manufacturing and packaging suppliers), representing 60% of total supplier spend, to complete the assessment.
2. As at 30 June 2021, of the 67 top suppliers, 93% have completed assessments.

3. Where suppliers are already Responsible Jewellery Council (RJC) accredited, they complete a simplified version of the assessment, whilst non-RJC suppliers (currently 31) complete the full assessment, which includes information on:

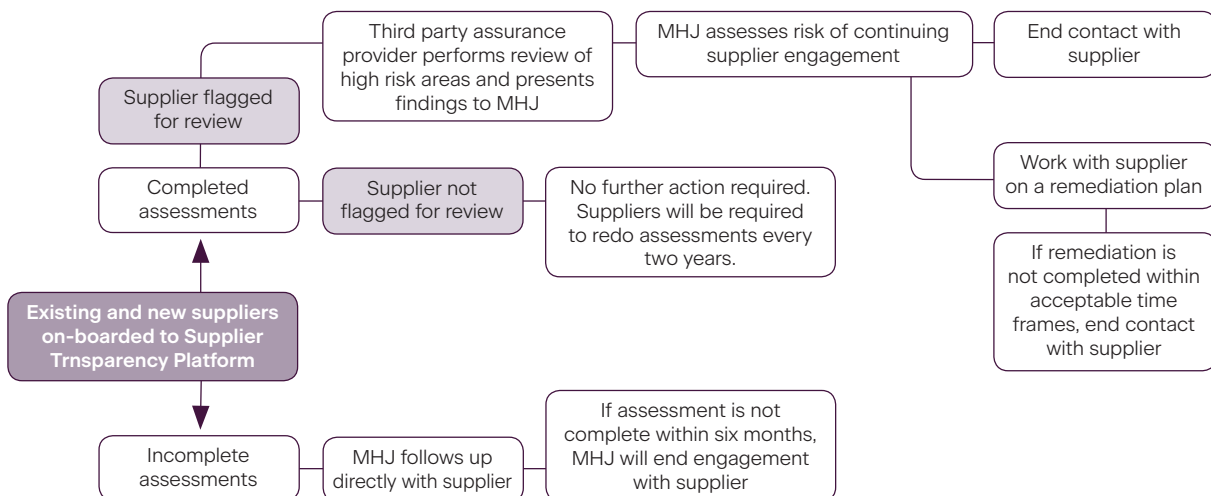
- Site information
- Social
- Business ethics
- Health and safety
- Responsible procurement
- Environment and sustainability
- Business performance

This provides a view in line with key RJC requirements.

4. Bureau Veritas (testing, inspection and certification provider) are performing independent audits and verification over the completed assessments.
5. Targeted reviews are mandated in cases where more clarity is required or there are concerns identified by the assessment.

When renewing future supplier contracts, we place significant weighting on whether a company's ethical and environmental standards are aligned with ours. 100% of diamonds used in our products are conflict free, and we continue to explore, innovate with, and invest in other sustainable raw materials. Our supplier transparency platform process is outlined below.

In FY22 Michael Hill will ensure more of our existing suppliers complete the assessment as part of contract renewals, as well as any new suppliers being considered as part of their onboarding process. Results of desktop reviews will be risk assessed and decisions made around the future supplier relationship.



OUR FIRST MODERN SLAVERY STATEMENT

In March 2021 we released our first Modern Slavery Statement covering the financial year ending 30 June 2020, showing the steps we are taking to identify and address the risks of modern slavery in our supply chain. This statement reflects our wider commitment to sustainability and proposes a new lens through which we see our business operate; and a copy can be found on our Investor Relations Centre website at investor.michaelhill.com

Our Modern Slavery Statement identified supplier due diligence as a key component for managing modern slavery risks. The supply chain transparency platform outlined above assists with gathering necessary information on the operational and procurement practices of direct suppliers via an online Ethical Supply Chain Assessment, and the results then drive more detailed audit processes.

In line with the commitments made in the 2020 Modern Slavery Statement, the following is underway to improve and streamline supplier management:

- Review of new supplier onboarding process
- Review of existing supplier contracts
- Review our Code of Ethics and Code of Conduct for Suppliers Policy.

Our focus areas for the coming years are to:

- Onboard more suppliers onto the supply chain transparency platform
- Revise the selection process for new suppliers to include completion of a more detailed questionnaire around how they manage modern slavery risks, visits to their facilities to understand working conditions, and appropriate revisions to the Code of Conduct for Suppliers Policy (if required)
- Restart, when travel restrictions allow, the regularity of supplier visits to production facilities
- Review substantial supplier contracts.

Our 2021 Modern Slavery Statement covering the financial year ending 30 June 2021 will be released in the coming months.

KEEPING LOCAL INDUSTRY ALIVE

We work in partnership with all our suppliers to ensure only high-quality jewellery is offered at Michael Hill, with local craftsmanship being one of the founding pillars in the heritage of our business. Michael Hill first established an in-house workshop in the 1980s, and we are one of the only jewellers to maintain a retail-led workshop to this day, with a dedicated team of master craftsmen, diamond specialists and quality control professionals.

Made in Australia

From the initial design and 3D-printed resin mould, to gold casting, diamond sorting and setting, polishing and engraving – our beautiful Made in Australia pieces come to life in our in-house workshop in Brisbane, Australia.

Where possible, we believe it is important for our business model and local communities to keep manufacturing industries alive in the markets we operate, to support local jobs and protect our supply chain from disruption. Having our in-house workshop located alongside our head office and distribution centre ensures our manufacturing team are a central, focal point of our organisation as we continue to increase our focus on, and delivery of, quality product from this area.

◆ 69% of all solitaire engagement rings sold were made in Australia

◆ Made in Australia product made up 14% of sales

◆ 16,796 individual products were made in our Australian manufacturing facility

◆ 30 full time team members in our Australian manufacturing facility

Made in New Zealand

Several of our chain necklaces and bracelets, as well as our most-loved round and oval solid bangles, are crafted for quality and beauty by our New Zealand supplier, Morris and Watson. Morris and Watson are a fourth-generation family business, dedicated to providing beautiful jewellery with quality and fineness. Morris and Watson are also a member of the RJC.





**SAVE THE CHILDREN
AND MICHAEL HILL**

**HELPING SAVE THE CHILDREN
THROUGH COVID-19**

Throughout the 2020 festive period we celebrated with our *Ellie-Mae Sparkle* initiative - a children's book (with illustrations by Sir Michael Hill and words by award-winning author, Emma Mactaggart) sold in store to raise funds towards Save the Children's COVID-19 response

efforts. Thanks to the sales of *Ellie-Mae's Sparkle*, we successfully raised over \$30,000 for Save the Children, supporting disadvantaged children across our Australian, Canadian and New Zealand communities.

"Thanks to the generous support of Michael Hill, we were able to provide rapid response efforts to help protect and support communities challenged by COVID-19, keeping them healthy and safe during this heightened period of isolation"

David Faulmann,
Save The Children Corporate Partnerships Manager

EMPOWERING WOMEN GLOBALLY WITH DRESS FOR SUCCESS

Aligning with International Women's Day in March 2021, Michael Hill partnered with global charity, Dress for Success; a non-profit organisation that empowers women to achieve economic independence. Dress for Success works with women to help them achieve economic independence by providing a network of support, professional attire, and the development tools to help women thrive in work and in life.

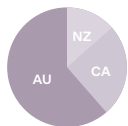
We created a sterling silver pair of earrings with Michael Hill donating more than 50% of the gross sales proceeds to Dress for Success. With incredible engagement from our team and customers across all markets, we raised over \$14,500 to help empower women globally.



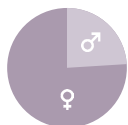


Love our Team

OUR TEAM AS AT 27 JUNE 2021



Total employees by region



Full time employees by gender



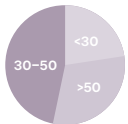
Part time employees by gender



Casual employees by gender



Total employees by gender



Total employees by age



Education, training and progression

Employees that received regular performance and career development review during the year

TEAM ENGAGEMENT

We are committed to creating outstanding employment and workplace experiences for our team. Our 2021 Group team engagement survey result saw a significant improvement in employee engagement across the Company.

Our annual engagement survey indicated that 85% of our team members are engaged, meaning they see us as a great place to work and feel a sense of personal accomplishment in their roles at Michael Hill. This places us 13% above the Qualtrics Global Retail Industry benchmark. Each market we operate in experienced engagement results that were higher than in previous years and are well above global and country retail and all company averages. With 86% of our workforce having their say and completing the survey we are confident that these results are reflective of our teams' experiences.

We know that a highly engaged workforce correlates with strong performance, better health and safety outcomes and better employee retention and we are seeing this in our results. We empower every leader to improve team engagement with real-time insights that show them exactly where to focus their efforts to increase performance. The impact of our leaders is great. We are proud of these outstanding results as it is our people that will drive the success of our company into the future.

OUR DIVERSE AND INCLUSIVE TEAM

At Michael Hill, we believe diversity of background, life experience and perspective drives innovation, performance, and engagement and we strive to create a workplace that is inclusive for all. We want our workplace to be a safe, supportive environment where all team members feel valued and appreciated, and can be their brilliant selves, all the time.

To do this well, we need to know more about our workforce. That's why we've embraced a refreshed and accelerated approach to diversity and inclusion. We're building a culture where difference is valued.

Together, we will continue to build an inclusive culture that encourages, supports, and celebrates the diverse voices of our team members; a culture which fuels innovation, and creates closer connections with our customers and our communities.

WOMEN IN THE WORKPLACE

Women play a significant role in our success and we are proud to offer opportunity, development and progression for women in the workforce of all ages and life stages. Gender equality is monitored annually at all levels of the organisation and we are committed to an environment that is free from discrimination and enables women to realise their full potential.

- Half of the Michael Hill Executive Leadership Team are female (three women and three men)
- 1/3 of our Board of Directors are women
- 60% of leadership positions globally are held by women
- The Michael Hill workforce is comprised of individuals of various ages and life stages
- Women represent 88% of our global workforce.

CONSISTENTLY LISTENING, LEARNING, AND IMPROVING

- We've introduced a comprehensive comparative analysis framework to enable deeper understanding of quantitative and qualitative diversity and inclusion metrics across Michael Hill. This includes measuring, tracking, and reporting annually on markers such as gender distribution, gender wage gap, generational spread and employee engagement. This data is used to inform our strategy and areas of focus for the future.
- We are committed to the ongoing development of our people, particularly in relation to Diversity & Inclusion (D&I). In 2020 we delivered training to our hiring

THIS PAGE: DIAMOND LOVE NECKLACES
DESIGNED BY LADY CHRISTINE HILL



**We care.
We create outstanding
experiences.**



**We are professional.
We are inclusive
& diverse.**

managers which focused on why a diverse workforce is important to achieving our goals and how inclusive hiring practices that are based on capability and merit lead to increased team effectiveness and performance. We also developed an Inclusive Leadership Guide for leaders, specifically designed to raise awareness and recognise and address unconscious bias. Over the next year we will introduce unconscious bias training to our online learning portfolio to further foster an environment of inclusive practices and mindsets.

- A voluntary, confidential diversity questionnaire was developed and deployed to enable a more robust understanding of the workforce demographics of our team members such as their cultural background, gender identity, ability, education and much more. This initiative will be enhanced next year by introducing specific pulse surveys through our listening program provider.
- Michael Hill's new Diversity & Inclusion Committee was formed in 2020 with a diverse representation of team members from our global workforce. The Committee is dedicated to and passionate about pushing our Diversity & Inclusion Strategy forward in a variety of ways, including a calendar of events to celebrate the diversity within our organisation and communities, through awareness raising and educational initiatives.

INTERNAL CAMPAIGNS TO CELEBRATE OUR TEAM

At Michael Hill we are committed to celebrating and honouring our diverse workforce. Throughout the year, our Diversity & Inclusion Committee run internal campaigns focussed on Diversity & Inclusion education and awareness, fostering a collective commitment towards a more inclusive environment for all team members.

Celebrating International Pride month

In June 2021 we celebrated International Pride month with all team members. Throughout the month we reaffirmed our solidarity with the Pride community, highlighted the importance of inclusive language, provided guidance on how to be an ally and shared resources for any team member that may require relevant support. We also hosted voluntary lunch and learn sessions celebrating Pride culture.

International Women's Day

In March we embraced the 2021 #choosetochallenge theme. We encouraged our team members globally to pledge how they would challenge for change and gender equality through meaningful commitments, big or small, that they could implement in their personal or professional lives. We also celebrated some of our talented female team members who are forces in their field.

HELPING OUR TEAM STAY HEALTHY, SAFE AND SECURE

At Michael Hill, we are accountable for creating and maintaining healthy, safe and secure work environments for our team members, customers and visitors who interact with our business. We know that our success depends on our people, and we are committed to ensuring the physical and mental health, safety and security of everyone who comes to work, or visits our stores. The unpredictable and ever-changing challenges presented by the COVID-19 pandemic remain a priority. Despite the ongoing disruption and threat caused by COVID-19, we were still able to complete a range of health, safety and security initiatives during the year.

Health, Safety and Security Initiatives delivered in FY21

- Completed an Emergency Response Management Plan rollout – to ensure consistency in meeting regulatory requirements and ensure our team members are prepared to respond appropriately in the event of an emergency.
- Renewed and updated first aid requirements across the Group.
- Conducted a six-week health and wellbeing challenge – to assist in maintaining health and wellbeing awareness across the busiest time of the year (November and December).
- Provide a flu vaccination program to team members in Australia and New Zealand - to assist illness prevention.
- Completed task-based activity risk assessments for manufacturing and safe work practices – to ensure consistent and well-developed safety standards.
- Improvements across all statistical indicators including injury and incident frequency rates.
- Our employee assistance program continues to offer all team members up to six free counselling sessions across a range of different service offerings.
- Reviewed and implemented improvements in our store security framework, enabling us to gain better insights into our security portfolio, and to ensure we have up to date and effective security solutions across our business.



RINGS FROM THE EVERMORE COLLECTION



**...as part of our business
practices and supply
arrangements we ensure that
100% of our diamonds are
conflict free**

Love our Environment & Product

OUR PRODUCT EVOLUTION

At Michael Hill, we are working with the RJC, our suppliers and other industry partners to ensure we deliver ethical products to the very highest quality standard possible. We are constantly investigating the materials we use to be less impactful on our environment, whilst continuing to provide the quality of jewellery that our customers trust us to create.

Our diamonds are purchased from legitimate sources in accordance with the Kimberley Process Certification Scheme (KPCS), as supported by the World Diamond Council System of Warranties. The KPCS is a joint government, international diamond industry and civil society initiative to prevent conflict diamonds from entering the supply chain.

As part of our business practices and supply arrangements, we ensure that 100% of our diamonds are conflict free.

Other product initiatives we are planning to rollout over the next few years, reflecting our commitment to progress toward a circular economy in our category include:

- Using recycled gold and silver to craft new products
- Ensuring all our vendors source their gold from LBMA accredited refiners
- Introducing traceable diamond programs
- Using repurposed diamonds to craft new products.

We will continue to stay at the forefront of sustainable product evolution in our category and will consistently strive to bring more sustainable product solutions to our customers.

OPPOSITE PAGE:
MODEL WEARS AN ENGAGEMENT RING FROM THE
MICHAEL HILL DESIGNER BRIDAL COLLECTION

EVOLVING OUR FOUNDATIONS FOR THE BENEFIT OF THE PLANET

During the year we have proudly implemented several changes to our business operations which have had a positive environmental impact and reduced operating costs.

Our expansion in Canada

reducing international freight lanes by establishing a new in country distribution centre, and optimising local trade routes, reducing our existing carbon footprint through a local approach.



LED lights
introduced to 78 stores
(1950 light fittings)

reducing electricity consumption of halogen lights; and a commitment to deliver LED lights to our entire store network by 2025.



Heavily reduced printed marketing material:

226 tonnes of printed collateral reduced in FY21.



Use of sustainable paper:

all printed catalogues in PEFC certified recycled & recyclable paper.



Developing new

sustainable product & eCommerce packaging

to reduce single use plastic waste in over 300,000 orders annually.

Removed single use plastic in manufacturing:

installation of a distilled water filtration system in our manufacturing facility to replace plastic bottled water removing environmental impacts of 240 x 20L plastic bottles going to landfill annually.



Project "Paper Cut"

reduced paper use across entire network, including printer consolidation, scan/login; e-receipts instore; automated invoice program; digital retail calendar and Regional Manager online hub.



Sustainable Screen Disposal Program:

over one tonne of out-of-date hardware diverted from landfill.

Cloud based storage

and automated power down, reducing carbon footprint and energy use.



Executive Leadership Team

Daniel Bracken

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Daniel has more than 25 years' experience managing some of the world's most iconic brands. He has an extensive background in retailing, fashion, and brand development in Australia and international markets, as a Chief Executive Officer and in senior executive positions across strategy, marketing, merchandise, product design and digital and customer engagement strategies.

Prior to joining Michael Hill as CEO in November 2018, Daniel was CEO at Specialty Fashion Group and previously held positions as the Group Vice President, Strategy for Burberry London, as Deputy CEO and Chief Merchandise & Customer Officer of Myer, and as CEO of The Apparel Group.

During his time at Specialty Fashion Group, Daniel led the company's corporate restructure and the successful divestment of a number of brands, returning the company to profitability. At Myer, he oversaw merchandise buying, design, sourcing, and manufacturing, and led the Myer brand and customer experience strategy. During his tenure, the Apparel Group owned leading fashion brands Sportscraft, Saba, Willow, and JAG.

His international experience includes more than 15 years at Burberry London in the United Kingdom, where he was a key member of the leadership team involved in their turnaround into an iconic global brand. He performed a range of roles at Burberry including Vice President – Strategy (Group), Head of Merchandising & Production (Ready to Wear), and Commercial & Operations Director (Menswear).

Andrew Lowe

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Andrew joined Michael Hill in December 2017 as Chief Financial Officer, and later assumed the role of Company Secretary. He holds a Bachelor of Commerce, a Bachelor of Laws and a Masters of Applied Finance, and is a qualified Chartered Accountant and a Chartered Taxation Adviser of the Taxation Institute of Australia.

Andrew has extensive experience in finance and leadership roles across a range of listed corporate groups with Australian and offshore operations. This includes as Head of Tax, Shared Services and Finance Partnering at Australia's largest rail-based freight operator and ASX100 firm, Aurizon. Previously, he was Deputy CFO and Head of Tax at Cleanaway Waste Management, and spent a decade with global mining company, Anglo American.

Joanne Matthews

CHIEF PEOPLE OFFICER

Joanne joined Michael Hill in January 2019 with extensive experience in change leadership, and talent management and development. This experience was gained across 14 years in senior human resource leadership roles, including as Divisional Human Resources Manager (Leisure) for Super Retail Group.

Joanne has also worked as the Executive General Manager, Human Resources for MAX Solutions Pty Ltd, a national organisation that delivers health, training and humanitarian solutions for Federal and State Governments, and prior to this she worked in retail operations with Woolworths.

With a large workforce in nearly 300 stores across Australia, New Zealand and Canada, Joanne's experience is well aligned to deliver on the Company's core talent priorities of team engagement and attracting, developing, rewarding and retaining top quality people at Michael Hill.

Joanne holds an MBA and Bachelor of Business in Human Resources and Marketing.



FROM LEFT: ANDREW LOWE, AMY SZNICER, DANIEL BRACKEN, MATT KEAYS, JOANNE MATTHEWS, JO FEENEY, KEITH LOUIE

Amy Sznicer

CHIEF RETAIL OFFICER

Amy has 24 years' leadership experience, across retail and beauty industries, having worked with prominent retail brands such as Witchery, GAP, Bras n Things, Guess Jeans and Aldo. She has led the roll out of over 200 new retail stores in Australia, New Zealand and Singapore and was named 2006 Australian Young Business Woman of the Year at the Telstra Business Women's Awards.

Prior to joining Michael Hill as Chief Retail Officer in January 2021, Amy owned and operated a New Zealand blow dry bar/tea house salon business 'Dry & Tea' since 2014. During Amy's leadership the business expanded to Australia and continued its status as a multi-award winning category leader. Amy's extensive career in specialty fashion retailing along with her experience as a business owner has built a broad skill set that goes beyond store operations.

Amy is extremely passionate about dynamic leadership, a strong company culture, deep retail foundations and driving high performance in an ever-changing retail landscape. These qualities enable her to consistently deliver the highest standard of customer service and ultimately, strong business performance.

Matt Keays

CHIEF INFORMATION OFFICER

Matt joined Michael Hill in June 2015, bringing with him extensive international IT experience in the retail space. Prior to joining the company, Matt led the global IT strategy for Forever New as their General Manager Information Technology, and prior to that worked as Chief Information Officer for Super Amart where his final project was successfully leading a full-scale disaster recovery process after the Queensland floods in 2011. He also worked for leading national footwear and apparel company, Colorado Group after enjoying his long retail apprenticeship with 11 years at Country Road, where he worked initially as a Finance Accountant, and also gained solid shop floor experience during his tenure.

Matt has strong technical skills and a track record of developing an effective team focused on business alignment. Matt's career has seen him lead significant technology and infrastructure programs, covering Microsoft Dynamics, Infor, Oracle and JDE. He has helped retail businesses implement and embrace data warehousing with his first Microsoft based implementation as far back as 2004. The Michael Hill advanced data warehouse went live in 2016 and his team continually evolve our data platforms to align with the strategic shifts across the business.

Keith Louie

CHIEF DIGITAL OFFICER

Keith joined Michael Hill in August 2021, as our first Chief Digital Officer. He brings more than 30 years' experience in consumer goods production, wholesale, retail and advisory across Europe and Australasia, and deep experience of eCommerce leadership and digital transformation over the last 15 years.

Keith led online shopping for Coles Supermarkets for six years during its transformation under the Wesfarmers group, rebuilding the customer experience and operating model. Subsequently, he led online retail for Target and advised other Wesfarmers brands on eCommerce, before becoming CEO of the national Aussie Farmers Group, a privately-owned fresh food production, wholesale, online retail, and logistics group. More recently, Keith has advised various listed, private and Government entities on eCommerce and digital transformation, building on his earlier experience as a Director and Associate Partner of management consulting firm PwC, and with IBM's Global Business Solutions team.

Keith is known for innovative ideas, thinking strategically, applying a rigorous commercial lens, and taking action to transform businesses digitally. In doing so, he inspires the teams he leads to deliver change and improve customer experiences.

Jo Feeney

CHIEF MARKETING OFFICER

Jo joined Michael Hill in March 2021 as Chief Marketing Officer to lead the revitalisation and growth of the Company's brand, delivering end to end marketing strategies in an omni-channel environment. Jo is responsible for shaping the Company's messaging, delivering an outstanding experience to the Michael Hill customer across both digital and traditional marketing channels and leading the vision for a world class loyalty program.

Jo brings with her over 20 years' experience in both local and global organisations (including Woolworths, Telstra, Foxtel and McDonald's), specialising in strategic brand building, end to end marketing communications and driving key customer growth strategies across channels. In her most recent role as Director of Marketing at McDonald's Australia, she was responsible for marketing, brand and media strategies and driving commercial growth through innovation and re-imagining of the brand.

Jo is also a recognised leader in creativity - winning multiple awards both locally and internationally. She brings a fresh approach to driving the future growth of the brand through a lens of commercial creativity.





Michael Hill is gaining traction, as it continues to evolve into a modern, differentiated, omni-channel jewellery brand

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the year ended 27 June 2021.

Principal activities

The Group operates predominately in the retail sale of jewellery and related services sector in Australia, New Zealand and Canada.

There were no significant changes in the nature of the Group's activities during the year.

Dividends

Dividends paid to members during the financial year were as follows:

	2021 \$000	2020 \$000
No final dividend was declared for the year ended 28 June 2020 (2019: AU1.5¢ per fully paid share).	-	5,817
Interim dividend for the year ended 27 June 2021 of AU1.5¢ (2020: AU1.5¢) per fully paid share paid on 26 March 2021 (2020: 29 January 2021).	5,816	5,817

The Directors have declared the payment of a final dividend of AU3.0¢ per fully paid ordinary share (2020: no final dividend declared). The final dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders. The aggregate amount of the proposed dividend expected to be paid on 24 September 2021 out of retained earnings, but not recognised a liability at year end, is:

11,644 -

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have been included in the Operational Review and Strategic Update sections of this report.

Review of operations

In Australian dollars, the Group has reported operating revenue of \$556.5m (2020: \$492.1m) for the 2021 financial year, producing a net profit after tax (NPAT) of \$45.3m (2020: \$3.1m). The Group reported EBIT* of \$72.4m for the year ended 27 June 2021 (2020: \$14.1m) an increase of \$58.3m, largely driven by a lift in gross profit of \$50.7m to \$348.9m (2020: \$298.2m). Comparable EBIT* increased to \$56.6m (2020: loss of \$5.2m).

* EBIT and Comparable EBIT are non-IFRS information and are unaudited. Please refer to non-IFRS information section in this report for an explanation of non-IFRS information and a reconciliation of EBIT and Comparable EBIT.

The Group achieved the following key outcomes for the 2021 financial year:

Key Financial Results

- Statutory net profit after tax of \$45.3m (2020: \$3.1m).
- EBIT increased to \$72.4m (2020: \$14.1m).
- Group operating revenue increased 13.1% to \$556.5m (2020: \$492.1m), with 10,447 lost store trading days.
- Group same store sales were up 8.6% for the year, with H1 +6.3% and H2 +13.2%.
- Group gross margin increased by 210bps to 62.7% (2020: 60.6%), underpinned by our strategic initiatives.
- Maintained target inventory levels at \$171.2m (2020: \$178.7m).
- Strong balance sheet with a healthy net cash position of \$72.4m (2020: \$0.5m).
- Final dividend of AU3.0¢ per share declared, resulting in total dividends for the year of AU4.5¢ per share.

Operational Performance

- Digital sales increased by 53.4% to a record \$34.8m, representing 6.3% of total sales, up from 5.0% last year.
- Loyalty strategy continues to deliver – *Brilliance by Michael Hill* now over 800,000 members (2020: ~200,000).
- Product enhancements saw our unique to Michael Hill jewellery, branded collection sales climb to 42.1% of total sales for the full year (2020: 37.3%).
- Re-engineering our global supply chain – Canadian 3PL distribution centre to open in advance of Christmas trading.
- Extensive temporary store closures in Eastern Canada, together with sporadic closures across Australia, culminating in 10,447 lost trading days for the year.
- One new store opened and six under-performing stores were closed during the year, giving a network total of 285 stores across all markets (2020: 290).

EARRINGS FROM THE **KNOTS** COLLECTION,
DESIGNED BY **LADY CHRISTINE HILL**



Following the FY20 global store network shutdown, the Group delivered significant same store sales growth across all four quarters of FY21. For the year, the Group delivered same store sales growth of +8.6% and gross margin increased by 210 bps to 62.7% for the Group. These results demonstrate the growth initiatives underpinning the seven strategic pillars are firmly embedded in the Group. These initiatives have created a sustainable platform for sales growth and margin expansion through the success of our loyalty program, continued penetration of our online business, acceleration of retail fundamentals, and product evolution.

As a result of Government mandated lockdowns, the Michael Hill global store network suffered 10,447 lost store trading days. Despite the impact of disrupted trading conditions and the reduced global store network, total revenue grew by 13.1% to \$556.5m (2020: \$492.1m) as the Group continues to elevate, modernise the brand and transform the customer journey.

The Group's online business exceeded expectations in outperforming 2020, resulting in another year of record digital sales of \$34.8m and now represents 6.3% of total sales. Website traffic increased by 35.3% against prior year, with customers continuing to utilise our enhanced online platform. During the year, the Group launched "ship from store", "click and reserve" and in-store appointment capabilities, and enhanced its "virtual selling" offering to expand the Group's omni-channel ecosystem.

The Group continues to prioritise product evolution and creating uniquely Michael Hill jewellery, with branded collections now representing 42.1% of total sales for the year (2020: 37.3%). Our merchandise team have been refining and improving our product offering, ranging and assortment whilst ensuring our inventory levels are maintained. This saw delivery of the targeted inventory range, with a holding of \$171.2m (2020: \$178.7m) at year end.

The Group has strengthened its balance sheet, with a year-end net cash position of \$72.4m (FY20: \$0.5m) and nil debt. During the year, the Group also entered into a new financing facility, jointly funded by ANZ and HSBC. This new \$70m facility is currently undrawn, with a term to February 2024. Furthermore, the Group has strategically reviewed the in-house Canadian credit program to de-risk the balance sheet – the sale of the credit book and partnering with a new credit provider is nearing conclusion.

Sales from the Group's Professional Care Plan (PCP) increased to \$30.3m (2020: \$24.0m) with an amount of \$27.3m (2020: \$27.5m) recognised as revenue for the full year. At 27 June 2021, a deferred amount of \$76.6m remained on the balance sheet (2020: \$73.8m).

The Group opened one new store in Canada and closed six under-performing stores, resulting in 285 stores at 27 June 2021 (2020: 290).

Impact of COVID-19

The Group continues to monitor the situation throughout the geographies in which it operates. Uncertainty remains as to the future impact of COVID-19 and the ability to operate bricks-and-mortar stores during this period. The Group continues to adhere to local and national government guidance in relation to any future impacts which would temporarily close stores.

During the period, the Group received financial support and assistance from its suppliers, landlords, and local governments. A number of landlords and suppliers provided extended payment terms. These agreements have concluded with no material amounts outstanding. Additionally, landlords have provided support in the form of rental abatements.



OVAL DIAMOND RINGS FROM THE FENIX CREATED DIAMONDS FOR MICHAEL HILL COLLECTION

Segment results

The operational segments below reflect the performance of the Group's retail operations in each geographic segment. The segments include trading activity from our online channels presence and our Canadian in-house credit function. The segments exclude revenue and expenses that do not relate directly to the relevant retail segments, and are treated as unallocated. These predominately relate to corporate costs and Australian based support costs, but also include the manufacturing activities, warehouse and distribution, interest and company tax. The results below are expressed in local currency.

Michael Hill Australia

OPERATING RESULTS (AU \$000)	2021	2020	2019	2018	2017
Revenue	312,264	266,610	313,587	325,709	321,981
Gross margin	194,149	161,030	194,052	206,303	201,707
Gross margin as a % of revenue	62.2%	60.4%	61.9%	63.3%	62.6%
EBIT	62,889	27,410	32,917	48,621	51,688
As a % of revenue	20.1%	10.3%	10.5%	14.9%	16.1%

In Australia, segment revenue increased by 17.1% to \$312.3m (2020: \$266.6m) and same store sales increased by 13.0% for the year. This result is a credit to the segment, as it saw 3,458 lost store trading days due to various government mandated store closures across the country.

Gross margin for the year was 62.2% (2020: 60.4%), which is a significant improvement on both FY19 and FY20.

At year end, of the 150 Australian stores (2020: 155), 30 NSW and two NT stores were temporarily closed. Currently, 46 NSW, 27 VIC, and four ACT are temporarily closed.

Five underperforming stores permanently closed during the period, resulting in 150 stores at 27 June 2021.

Michael Hill New Zealand

OPERATING RESULTS (NZ \$000)	2021	2020	2019	2018	2017
Revenue	127,067	106,696	120,064	125,239	121,970
Gross margin	78,771	63,641	73,011	77,673	75,204
Gross margin as a % of revenue	62.0%	59.6%	60.8%	62.0%	61.7%
EBIT	35,451	21,067	24,125	27,800	27,836
As a % of revenue	27.9%	19.7%	20.1%	22.2%	22.8%

In New Zealand, segment revenue increased by 19.1% to NZ\$127.1m (2020: NZ\$106.7m) and same store sales increased by 7.1% for the year. This result represents significant outperformance against FY17, FY18 and FY19. It should also be noted that during the year, 16 Auckland stores were required to temporarily close on three separate occasions resulting in 464 lost store trading days.

Gross margin for the year was 62.0% (FY20: 59.6%), resulting in the strongest margin in the last five years.

There were 49 stores trading at 27 June 2021. Currently, all New Zealand stores are temporarily closed, due to government mandated lockdowns.

Michael Hill Canada

OPERATING RESULTS (CA \$000)	2021	2020	2019	2018	2017
Revenue	118,445	110,799	133,146	130,762	112,721
Gross margin	72,643	63,991	80,726	81,576	69,078
Gross margin as a % of revenue	61.3%	57.8%	60.6%	62.4%	61.3%
EBIT	15,074	(2,412)	9,797	14,605	12,386
As a % of revenue	12.7%	(2.2)%	7.4%	11.2%	11.0%

In Canada, segment revenue increased by 6.9% to CA\$118.4m (2020: CA\$110.8m) and same store sales increased by 6.8% for the year. This segment was heavily impacted by temporary store closures in Eastern Canada, with 6,525 lost store trading days for the year. By early July, all 86 stores were open and have remained trading, with our strategic focus now returning to the productivity opportunity in the market.

Gross margin for the year was 61.3% (2020: 57.8%), which is a significant improvement on both FY19 and FY20.

One store was opened in Canada during the period in Avalon, Newfoundland.

One underperforming store permanently closed during the period, resulting in 86 stores at 27 June 2021.



While the *Brilliance by Michael Hill* loyalty program is only 18 months old, membership has already grown to over 800,000

Cash, cash flow and dividends

Net operating cash inflows of \$143.5m increased from prior year of \$76.1m. This is largely due to improvement of receipts from customers through trade and working capital management.

Through further disciplined inventory and working capital management, the Group remains in a resilient financial position with \$72.4m in net cash (2020: \$0.5m) to continue to invest in improvements to its systems, infrastructure, and capabilities.

Dividends

The Board has previously stated its intention to restore dividend payments to historic levels as the pandemic recovery becomes more certain.

After taking into consideration sales and margin performance, the strength of the balance sheet, and while also recognising the risk of ongoing trading disruption, the Board has decided to declare a final dividend of AU3.0¢ per share unfranked, fully imputed with conduit foreign income.

This represents total dividends for the year of AU4.5¢ per share and lays the foundation for a sustainable dividend profile going forward, subject to the impacts of ongoing trading disruptions.

Strategic update: emphasis on growth and margin

The seven strategic pillars are underpinned by initiatives that continue to deliver a transformation agenda focused on sales growth and margin expansion, driving efficiencies within the business, elevating the Michael Hill brand and enabling a true omni-channel customer experience:

- 1** The elevation of the Michael Hill **BRAND** is gaining traction, as it continues to evolve into a modern, differentiated, omni-channel jewellery brand. Transitioning our brand messaging from discount-led promotions to quality and aspirational brand-led campaigns is key to enticing a deeper customer base, generate higher average transaction value (ATV) and margin growth.
- 2 DIGITAL** is at the forefront of our transformation with an emphasis on customer experience, product offering, and fulfilment. Following another year of exceptional growth, investment in our highest profit margin channel continues to focus on incremental traffic, higher conversion rates, and increased transaction value. Our early foray into 3rd party digital channels has provided the confidence to develop an integrated marketplace solution that will be rolled out in the first half of FY22. Looking further afield, we have identified opportunities to explore new digital channels and markets.

- 3** With a portfolio of 285 stores across three countries, bricks and mortar retail is at the core of the Michael Hill business. Our **RETAIL FUNDAMENTALS** strategy is focused on driving increased sales, higher margins, lower costs, and a modern, differentiated customer experience, all underpinned by our new retail incentive scheme. The key retail metrics of ATV, IPS and conversion all increased in all markets in FY21 and will continue to be a key area of focus.
- 4** The roll out of our new ERP platform in early FY21, was the enabler for **OMNI-CHANNEL** at Michael Hill. Across the year, we successfully tested and trialled “virtual selling”, “click and reserve”, and “ship from store”. These initiatives will now be progressively rolled out across our global network. Further connecting our physical and digital businesses we will be launching “click and collect” for Christmas 2021, delivering incremental sales and enhanced customer experience.
- 5** While the *Brilliance by Michael Hill* **LOYALTY PROGRAM** is only 18 months old, membership has already grown to over 800,000. Acquisition has been our priority and while this will continue to be a key focus, the business is now turning its attention to the opportunities of activation and retention. Our early insights already provide confidence that the program is resonating with our customers, delivering increased frequency, larger baskets, and higher margins. Predicative analytics and increased personalisation are being enabled by investment in data analytics capability and artificial intelligence to deliver further growth in the business.
- 6 PRODUCT EVOLUTION** is the foundation of a customer-led retail strategy, and is critical to continued sales and margin growth. The business will maintain its focus on uniquely Michael Hill branded product as a key differentiator in the categories and markets in which we operate. The business now delivers regular product newness to excite our customers and increase sales, with significantly lower inventory and higher margins. Our Australian manufacturing division has been reinvigorated delivering new bridal collections and increased speed to market, underpinned by a focus on craftsmanship, quality and local artisans and still achieving improved margins.
- 7** The **COST CONSCIOUS CULTURE** exists across every aspect of the Group. We continue to optimise the global supply chain, improve the global store network, and enhance our credit propositions globally. The new Canadian 3PL facility will be fully operational for peak Christmas trade - servicing both online customers and stores, optimising inventory, reducing logistics costs, and enhancing overall Canadian productivity and customer experience.



Risk management

The Board believe that a strong Corporate Governance framework will underpin the Group's growth and success. The Group regularly reviews its risk management framework and has identified the following at risk areas and mitigating strategies:

RISK

Ongoing impacts from COVID-19 continue longer than expected or become more intensive than forecasted impacting customers, suppliers and staff

Disruption to supply chain and inefficiencies in replenishment strategies

Increase in cyber attacks disrupting operations and causing financial distress

Risk of a disruptor or new competition entering our markets

Breach of regulation or law in one of our jurisdictions in an increasingly complex legal compliance environment

Inability to adjust to the rapidly changing consumer segment and retail environment

Theft appeal of our product increases during periods of financial hardship and uncertainty.

STRATEGIES AND MITIGATION

The Group has a COVID-19 crisis management team focussed on monitoring the status in key counties where it operates and has supply chain impacts. Where possible, we seek to leverage government financial assistance for our staff. Furthermore, we are working closely with our supply chain to support suppliers and ensure continuity of supply.

The Group is exploring and investing in better in-market strategies as well as revamping its ranging and increasing emphasis on sourcing and mix of product. This risk is further being addressed with the establishment of a Canadian warehouse to reduce shipping times within country and reduce the concentration of product within our network.

The Group has invested in new technologies and sought to remove vulnerable points of attack throughout its digital network. External parties are brought in to boost our capabilities, including both proactive and reactive responses to cyber attacks. Penetration testing and disaster recovery planning are built into our operating rhythm to further prepare and respond to attacks.

We are committed to improving and differentiating the brand from our existing competitors to create a point of difference and increase market share. This in itself helps mitigate the risk of other competitors entering our key markets and taking material market share.

The Group invests, via an in-house legal team, who are focused on compliance in our three markets and by utilising external legal firms for specialised legal advice when required. Any new legislative requirements or rectification initiatives have dedicated teams focussed on ensuring our compliance.

The Group continues to have an intense focus on digital channels and initiatives to meet consumer demand. The Group is investing in new omni-channel initiatives, including responding to key disruptions of trading due to COVID-19.

Our focus is on the safety and security of our staff and we are investing in initiatives and processes that improve the overall security of our stores, and contribute to the safety of our staff. We work with local law enforcement bodies and other external parties to better the overall retail environment for our staff and customers.



THIS PAGE: PENDANT AND RING FROM THE KNOTS COLLECTION, DESIGNED BY LADY CHRISTINE HILL



Non-IFRS Financial Information

This report contains certain non-IFRS financial measures of historical financial performance. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards. The measures therefore may not be directly comparable with other companies' measures. Many of the measures used are common practice in the industry in which the Group operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Securities and Investments Commission (ASIC) to promote full and clear disclosure for investors and other users of financial information, and minimise the possibility of those users being misled by such information.

The measures are used by Management and Directors for the purpose of assessing the financial performance of the Group and individual segments. The Directors also believe that these non-IFRS measures assist in providing additional meaningful information on the drivers of the business, performance and trends, as well as the position of the Group. Non-IFRS financial measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. Consequently, non-IFRS measures are used by the Directors and Management for performance analysis, planning, reporting and incentive setting. These measures are not subject to audit.

The non-IFRS measures used in describing the business performance include:

- Same store sales reflect sales through store and online channels on a comparable trading day basis
- Earnings before interest, tax, depreciation and amortisation (EBITDA)
- Earnings before interest and tax (EBIT)
- Comparable EBIT
- Significant item

CALCULATION OF COMPARABLE EBIT

Comparable EBIT has been calculated as follows:

	2021 \$000	2020 \$000
Statutory EBIT	72,398	14,079
Add back costs relating to:		
Employee restructure costs	-	2,170
Direct, incremental costs relating to COVID-19	-	1,755
Canadian credit book revaluation	2,986	-
Less items relating to:		
Government grants received (AU, NZ, CA)	(14,593)	(17,678)
Impact of AASB16 <i>Leases</i>	(4,197)	(5,551)
Comparable EBIT	56,594	(5,225)

Environmental regulations

The Group has determined that no particular or significant environmental regulations apply to it.

Information on Directors



FROM LEFT:
GARY SMITH, DANIEL BRACKEN, EMMA HILL,
SIR MICHAEL HILL, JACQUELINE NAYLOR AND
ROBERT FYFE

Information on the Directors of Michael Hill International Limited in office during the financial year and until the date of this report are set out below.

Robert Fyfe

B.ENG, F.E.N.Z

Rob was appointed a Director of the Company on 9 June 2016 and has served as a Director of Michael Hill's listed entity since 6 January 2014. He was appointed Chair of the Board in June 2021. Rob served as CEO of Air New Zealand between 2005 and 2012, a period that saw a resurgence in Air New Zealand to become one of the most recognised and awarded airlines in the world and one of the best performers in a tough industry. Prior to and subsequent to his time at Air New Zealand, Rob has gained extensive general management experience in various retail businesses operating in New Zealand, Australia and Great Britain, across sectors including retail banking, telecommunications, pay television and outdoor apparel. On New Year's Eve 2020, Rob was appointed as a Companion of the New Zealand Order of Merit for services to business and tourism.

Rob is also a Director of Air Canada and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Chair
- Non-Executive and Independent Director
- Member of Audit and Risk Management Committee
- Member of People Development and Remuneration Committee

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

2,693,640 Ordinary Shares

Sir Richard Michael Hill

K.N.Z.M.

Sir Michael is the founder of Michael Hill and was appointed a Director of the Company on 9 June 2016, having served as Director of Michael Hill's listed entity since its initial listing in 1987. He led the Group as Executive Chairman from 1987 until 2015. Sir Michael had 23 years of jewellery retailing experience before establishing Michael Hill in 1979, which then listed on the New Zealand Stock Exchange in 1987. Sir Michael's visionary leadership has been the foundation for the Company's successful international expansion. In 2008 he was recognised as Ernst & Young's 'Entrepreneur of the Year' and in 2011 was appointed a Knight Companion of the New Zealand Order of Merit for services to business and the arts. Sir Michael was appointed Founder President of the New Zealand listed entity in 2015 in recognition of his special connection with Michael Hill for over 35 years.

Sir Michael is not a director of any other listed entities and has not had any former directorships of listed entities in the last three years.

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

148,330,600 Ordinary Shares

Emma Hill

B.COM, M.B.A.

Emma was appointed a Director of the Company on 9 June 2016 and has served as Director of Michael Hill's listed entity since 22 February 2007. She served as Deputy Chair of the Group from 2011 until 2015 when she was appointed Chair. Emma stepped down from the Chair role in June 2021. Emma has over 30 years' experience with subsidiaries of the Company, commencing on the shop floor in Whangarei, New Zealand. She held a number of management positions in the Australian company before successfully leading the expansion of the Group into Canada as Retail General Manager in 2002. Emma holds a Bachelor of Commerce degree and an MBA from Bond University.

Emma is not a director of any other listed entities and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Non-Executive Director
- Chair of People Development and Remuneration Committee

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

167,487,526 Ordinary Shares

Gary Smith

B.COM, F.C.A., F.A.I.C.D.

Gary was appointed a Director of the Company upon incorporation on 24 February 2016 and has served as Director of Michael Hill's listed entity since 2 November 2012. Gary has had extensive Director experience. He is Chairman of Flight Centre Travel Group Ltd, one of Australia's top 100 public companies and is a member of their Audit and Remuneration sub-committee. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.

Gary is a Director of Flight Centre Travel Group Limited and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Non-Executive and Independent Director
- Chair of Audit and Risk Management Committee
- Member of People Development and Remuneration Committee

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

80,000 Ordinary Shares

Daniel Bracken

Daniel joined Michael Hill International as the CEO in November 2018. He has more than 25 years' experience managing some of the world's most iconic brands. He has an extensive background in corporate strategy, brand development, product design, customer engagement, digital expansion and has been instrumental in executing turnaround initiatives across many retail businesses.

Daniel is not a director of any other listed entities and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Managing Director
- Chief Executive Officer

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

201,869 Ordinary Shares
2,310,215 Performance Rights

Jacqueline Naylor

Jacqueline was appointed a Director of the Company on 15 July 2020. Jacqueline is a highly regarded Australian retail leader with over thirty years' executive and board experience in retail, fashion and eCommerce. She is currently an Independent Non-Executive Director of Myer and was previously a director of PAS Group, Macpac and the Virgin Australia Melbourne Fashion Festival. This follows an extensive career as a retail executive (and later an Executive Director) at the Just Group, where Jacqueline oversaw merchandising, marketing and brand strategies across a portfolio of 800 stores.

Jacqueline is a Director of Myer Holdings Limited and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Non-Executive and Independent Director
- Member of Audit and Risk Management Committee

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

160,000 Ordinary Shares

Janine Allis

Janine was appointed a Director of the Company on 9 June 2016 and retired on 27 October 2020. Janine is the Founder and Executive Director of Retail Zoo Pty Ltd which currently owns three brands - Boost Juice, Salsa's Fresh Mex Grill and Cibo.

Janine is not a director of any other listed entities and has not had any former directorships of listed entities in the last three years.

SPECIAL RESPONSIBILITIES

- Non-Executive and Independent Director
- Member of Audit and Risk Management Committee

DIRECTOR'S INTERESTS IN SHARES AND OPTIONS

651,745 Ordinary Shares



EARRINGS FROM THE SPIRITS BAY COLLECTION,
DESIGNED BY LADY CHRISTINE HILL



Digital is at the forefront of our transformation with an emphasis on customer experience, product offering, and fulfilment

Company secretaries

The Company has appointed two company secretaries, Andrew Lowe and Emily Bird.

Andrew Lowe, who is also the Chief Financial Officer of the Group, was appointed to the position of Company Secretary on 1 March 2019, having held that position previously (15 December 2017 to 22 January 2018). Andrew holds a Bachelor of Commerce, a Bachelor of Laws (Hons) and a Masters of Applied Finance, and is a qualified Chartered Accountant and a Chartered Taxation Adviser of the Taxation Institute of Australia. Andrew has extensive experience in finance and leadership roles across a range of listed corporate groups with Australian and offshore operations.

Emily Bird, who is also the General Counsel of the Group, was appointed to the position of Company Secretary on 31 July 2020. Emily joined Michael Hill in September 2019 as Senior Legal Counsel, and was appointed General Counsel & Company Secretary in July 2020. She holds a Bachelor of Laws, Bachelor of Arts (Psychology), Graduate Diploma in Legal Practice, Graduate Diploma in Applied Corporate Governance and Risk, and has completed the Company Directors Course at the Australian Institute of Company Directors. Emily has broad legal experience with in-house roles at Lactalis Australia (formerly Parmalat Australia), Virgin Blue (now Virgin Australia) and a secondment at Tarong Energy (now Stanwell Corporation), having started her legal career at top-tier firm Clayton Utz.



Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 27 June 2021, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees			
	Meetings attended	Meetings held*	Audit and Risk Management		People Development and Remuneration	
			Meetings attended	Meetings held*	Meetings attended	Meetings held*
R I Fyfe	15	15	6	6	5	5
Sir R M Hill	14	15	-	-	-	-
E J Hill	15	15	-	-	5	5
G W Smith	15	15	6	6	5	5
J E Naylor (appointed 15/07/2020)	13	13	4	4	-	-
J S Allis (retired 27/10/2020)	6	8	2	2	-	-

* Number of meetings held during the time the Director held office or was a member of the committee during the year.

Daniel Bracken was appointed a Director of the Company on 28 June 2021, after the end of the reporting period.

Committee membership

As at the date of this report, Michael Hill International Limited has an Audit and Risk Management Committee and a People Development and Remuneration Committee.

Audit and Risk Management Committee	People Development and Remuneration Committee
Gary Smith [°]	Emma Hill [°]
Robert Fyfe	Robert Fyfe
Jacqueline Naylor	Gary Smith

[°] designates Chair of the committee.

A close-up portrait of a woman with long, wavy brown hair, smiling and looking slightly to the right. She is wearing a gold hoop earring, a gold necklace with a circular pendant, and several gold rings on her fingers. She is wearing a brown, ribbed, V-neck top. The background is a plain, light-colored wall.

Our 2021 team engagement score of 85% is well above retail, country and global benchmarks

Audited Remuneration Report

The Directors present the 2021 Michael Hill International Limited remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded during FY21. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

Letter from the Chair of the People Development and Remuneration Committee

Dear Shareholders,

The Board acknowledges the performance and resilience of the Executive Leadership Team which has enabled the Group to report above target results for the financial year. As discussed earlier in the Annual Report, we have successfully navigated the challenges brought on by COVID-19. Despite the extremely challenging retail environment, with continuing volatility and regional government mandated lockdowns affecting store trade, our digital and omni retail strategy has enabled us to adapt to changing customer behaviour. Highlights include:

- Total Group revenue of \$556.5m (2020: \$492.1m) - an increase of 13.1%
- EBIT of \$72.4m (2020: \$14.1m) - an increase of 414.2%
- Comparable EBIT of \$56.6m (2020: -\$5.2m) - an increase of 1,183%
- Earnings per share of 11.68 cents (2020: 0.79¢) - an increase of 1,378%.

These results have translated into shareholder returns with the share price growing to \$0.83, from \$0.34 in 2020 and \$0.54 in 2019. After the 2020 pause on dividends to shareholders, dividends of 3.0c per share were paid to our shareholders in FY21. Our performance provides further evidence that our strategic transformation agenda is on track and delivering. We've seen record digital sales, our loyalty program going from strength to strength, further deployment of omni-channel initiatives, and continued evolution of our product offering, go-to-market campaigns and retail fundamentals.

We are proud of our values-led culture which has established Michael Hill as an employer of choice. Our values; We care, We create outstanding experiences, We are professional and We are inclusive and diverse, underpin team engagement and performance. Our 2021 team engagement score of 85% is well above retail, country and global benchmarks. I'm proud we continue to be a leader in gender diversity with 55% of leadership positions globally held by women. We continue to build our capability by attracting and developing key talent. This year we have had three new members join our Executive Leadership Team: Amy Sznicer, Chief Retail Officer, Jo Feeney, Chief Marketing Officer and Keith Louie, Chief Digital Officer. All three bring tremendous strategic and technical capability to the cohesive, collaborative, and high performing Executive Leadership Team.

Moving to the structure of our remuneration, following a review of the executive incentive framework, and in response to challenges in how to reward and recognise in a rapidly changing and unpredictable

environment, the Board approved changes to the Short Term Incentive Scheme (STI) and Long Term Incentive Scheme (LTI) with effect from FY21. The STI opportunity for on target performance reduced and an STI outperformance mechanism was introduced. The LTI opportunity was amended to increase the weighting towards long-term outcomes and a sliding vesting scale based on Total Shareholder Return was introduced.

Given the challenging and uncertain environment, executive salaries were not adjusted at the commencement of the year as per the usual review cycle. A review was completed after the first half which recognised performance had strongly rebounded. A moderate 1.75% increase was applied to CEO Daniel Bracken's base salary with an uplift of 10% applied to Andrew Lowe's base to remain market competitive and in recognition of the expanded breadth of the CFO's role.

Financial and non-financial risks were systematically considered in the overall assessment of STI outcomes. The CEO and CFO achieved 100% of on target STI and due to the strong EBIT result, 75% of the outperformance STI was achieved. No awards to current KMP vested under the LTI during the year. There were no changes to the structure, level or value of Non-Executive Director (NED) fees.

The Board will continue to review executive remuneration to ensure that it aligns with our strategy and support the delivery of sustainable long-term returns to shareholders. In FY22 we will seek independent advice on the appropriateness of remuneration practices of the Group.

In conclusion, the Committee believes the remuneration changes and outcomes for FY21 reflect an appropriate alignment between pay and performance during the year and are also fair in terms of the operating environment in which decisions have been made. We are confident that shareholders will recognise this as a continuation of our long-held approach to prior years. The results the Company has achieved in the last 12 months are outstanding and the executive remuneration set out in this report is considered by the Board to be reflective of this performance.

Regards,



Emma Hill
Chair of the People Development
and Remuneration Committee



Remuneration overview

This report sets out the remuneration arrangements for Michael Hill International's key management personnel (KMP). KMP have the authority and responsibility for planning, directing and controlling the activities of the entity. All KMP listed below have held their positions for the entire reporting period unless indicated otherwise.

NAME	POSITION	COMMENCEMENT AS KMP
Robert Fyfe	Chair	2016
Non-Executive Directors		
Sir Richard Michael Hill	Founder and Non-Executive Director	2016
Emma Hill	Non-Executive Director	2016
Gary Smith	Non-Executive Director	2016
Jacqueline Naylor	Non-Executive Director	2020
Former Non-Executive Director		
Janine Allis	Non-Executive Director	9 June 2016 until 27 October 2020
Manager Director and CEO		
Daniel Bracken	Managing Director and Chief Executive Officer	2019
Executives		
Andrew Lowe	Chief Financial Officer and Company Secretary	2017
Former Executives		
Vanessa Brennan	Chief Brand and Strategy Officer	11 August 2020 until 13 December 2020
Andrea Slingsby	Chief Operating Officer	9 January 2019 until 22 January 2021

The following changes were made on 28 June 2021:

- Emma Hill stepped down as Chair
- Robert Fyfe was appointed as Chair
- Daniel Bracken was appointed as Managing Director in addition to his Chief Executive Officer role.

PEOPLE DEVELOPMENT AND REMUNERATION COMMITTEE

The primary objective of the People Development and Remuneration Committee (PDRC) is to assist the Board fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy including remuneration components, performance measurements and accountability frameworks, recruitment, engagement, retention, talent management and succession planning.

The following Non-Executive Directors are members of the PDRC for the 2021 reporting period:

- Robert Fyfe - Independent Non-Executive and Chair of the Committee
- Emma Hill - Chair of the Board of Directors
- Gary Smith - Independent Non-Executive Director

In FY22, Emma Hill has assumed the role of Chair of the Committee and Robert Fyfe will remain as a Non-Executive PDRC member.

USE OF REMUNERATION CONSULTANTS

The PDRC obtains independent advice every three years on the appropriateness of remuneration practices of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's remuneration strategy. No advice was received in FY21. It is the Committee's intention to seek this independent advice in FY22.

Remuneration framework

Our remuneration philosophy is guided by our vision to be a modern, differentiated, omni-channel jewellery brand. The structure of compensation is designed with a mix of market competitive fixed remuneration, short-term incentives to reward annual performance and long-term incentives to align long term financial performance and shareholder value creation.

Our Values

We care
We are professional
We are inclusive and diverse
We create outstanding experiences

Our Remuneration Philosophy

Attract, motivate and retain talent
Reward the achievement of strategic objectives
Align to shareholder value creation

	Fixed Remuneration	Short Term Incentive	Long Term Incentive
How it is set	Fixed remuneration is set with reference to market competitive rates in comparative companies for similar positions adjusted to account for the experience, ability and effectiveness of the individual executive.	Senior executives participate in the Group's STI which is directed to achieving Board approved targets. Refer to the <i>FY21 Executive Remuneration Summary</i> section of this report.	The Company has established a Share Rights Plan as deferred compensation. Refer to the <i>FY21 Executive Remuneration Summary</i> section of this report.
How is it delivered	Base salary plus any fixed elements including superannuation and leave entitlements.	Cash.	An issue of share rights is made to participating executives. The rights vest at the end of the performance period if certain performance hurdles and vesting conditions are met.
What is the objective	Attract and retain key executive talent.	Align senior executive reward with achievement of performance targets designed to drive shareholder value creation.	Reward executives for sustainable long-term growth aligned to shareholders' interests.

FY21 executive remuneration summary

Following a review of the executive incentive framework, and in response to challenges in how to reward and recognise in a rapidly changing and unpredictable environment, the Board approved a number of changes to both the STI and LTI with effect from the FY21 year. The key changes are outlined below:

- STI opportunity for on target performance has reduced
- An STI stretch or outperformance mechanism has been introduced
- LTI opportunity for executives has also been updated to increase the weighting towards long-term outcomes.

Historically, the STI opportunity was 70% of total fixed remuneration (TFR) for the CEO and 50% of TFR for the CFO. LTI opportunity was 50% of STI earned for the CEO (or 35% of TFR) and 30% of the STI earned for the CFO (being 15% of TFR). The total target incentive (STI + LTI) for the CEO was 105% of TFR and 65% for the CFO.

Whilst the total target incentive opportunity remained consistent for both the CEO and CFO during the reporting period, being 105% and 65% respectively, the structure of the STI was changed. FY21 CEO STI opportunity at target is 36.75% of TFR and LTI is 68.25% of TFR to give a total target incentive of 105%. The structure for the FY21 CFO STI is 22.75% of target incentive and LTI is 42.25% of target incentive.

In addition, the FY21 scheme includes an STI outperformance component which allows executives to earn up to 200% of their on target STI payment for outstanding performance. This outperformance component was added on the basis that it was self-funding and only rewarded for significant EBIT outperformance (excluding any benefit from Government wage subsidies).



FIXED REMUNERATION

Fixed remuneration is set with reference to market competitive rates in comparable companies, locally and internationally, for similar positions adjusted for the experience, ability and effectiveness of the individual executive. Fixed remuneration includes base salary and superannuation at the rate of the maximum concessional contributions cap.

Fixed remuneration is reviewed annually and adjusted. Our policy is to increase base salary by CPI and increase superannuation in line with any increase to the concessional contributions cap. In addition, external consultants provide analysis and advice every three years to ensure compensation packages are appropriate and competitive in the marketplace. If there is a change in role scope or complexity the position is reassessed against market benchmarks.

Due to the uncertainty and volatility of trading in a COVID-19 environment, executive salaries were not adjusted for CPI at the commencement of the reporting period as per the usual review cycle. It was decided that any adjustment to salaries would occur after a review of FY21 H1 performance. This end of first half review recognised that the performance of the Company had strongly rebounded. Salaries were increased from 1 February 2021. As the full year (2020) CPI was negative, it was agreed that KMP remuneration decisions would deviate from usual remuneration policy. The CEO's salary increased by 1.75% in line with the 2020 national minimum wage decision. It was also recognised that the CFO's role had increased in complexity and the fixed remuneration was not market competitive. Fixed remuneration increased by 10% for the CFO.

SHORT-TERM INCENTIVE SCHEME

The STI is detailed in performance scorecards that are agreed with the Committee at the start of each half year. These scorecards detail the performance goals, targets and weightings for the financial half and follow a balanced scorecard approach where performance against key deliverables across financial, strategy, business improvement, customer and people areas are measured.

The scheme is supported by a performance management system, along with integrated reporting for visibility and transparency of progress by each executive. The framework aligns the executive's KPIs to delivery of the strategic plan, divisional business plans along with critical operational and leadership measures of each role. Performance against KPIs is formally measured on a biannual basis and informally in regular meetings.

The STI program in FY21 was structured as follows:

Performance period	6 monthly based on H1 and H2 performance
How it is set	CEO – 73.5% of fixed remuneration comprised of 36.75% for on target performance, and 36.75% for outperformance CFO – 45.5% of fixed remuneration comprised of 22.75% for on target performance, and 22.75% for outperformance
How is it delivered	In cash
Performance measures/KPIs for on target performance	Financial 50% weighting – EBIT, Sales, Margin, Costs Strategy 20% weighting – Omni-Channel, Supply Chain Evolution Customer 20% weighting – Brilliance Membership, Global Credit Strategy People 10% weighting – Engagement, Retention
Performance measure for outperformance component	Scaled EBIT increments above on target performance
Performance conditions	Awarded to the executive if performance measures and KPIs are achieved
How is STI assessed?	The Chair reviews the CEO's performance against the performance targets and objectives set for that year. The CEO assesses the performance of the Executive Leadership Team, with the CEO having oversight of his direct reports and the day-to-day functions of the Company. The Committee reviews the assessed performance to determine STI outcome for executives.

FY21 STI OUTCOMES

In FY21, the CEO and CFO earned 100% of their on target STI. This STI was awarded due to the achievement in full of the KPIs related to the financial, strategy, customer and people performance measures. An outperformance STI of 75% was awarded to both KMP due to the achievement of the EBIT performance measure. An overall payment of 87.5% of total potential STI was achieved.

Despite the challenging market conditions, FY21 has been a successful year for the Group with Management delivering revenue of \$556.5m (up 13.1%), Comparable EBIT of \$56.6m (up 1,183%) and EPS of 11.68c (up 1,378%). The Comparable EBIT growth achieved of 1,183% was in excess of the growth required for payment of 75% of the potential outperformance STI.

The Board considers that the strong results delivered were a direct outcome of the response of the Management Team in successfully navigating a raft of complex issues and implementing new initiatives to drive the business through this period. These events required an immediate range of actions by the Management Team to both manage the COVID-19 impacts and to allow the business to continue trading in a complex and constantly changing global environment.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

KMP	On target bonus achieved %	Stretch target bonus achieved %	Total potential bonus available \$	Included in remuneration \$	Amounts forfeited \$
Daniel Bracken	100%	75%	709,128	620,487	88,641
Andrew Lowe	100%	75%	210,887	184,526	26,361
Andrea Slingsby	100%	n/a	70,000	70,000	-

Vanessa Brennan ceased to be a KMP during the first half of the financial year and was not awarded a bonus for the year.



OVAL DIAMOND ENGAGEMENT RINGS FROM THE FENIX CREATED DIAMONDS FOR MICHAEL HILL COLLECTION

LONG TERM INCENTIVE SCHEME

In FY21, the LTI framework was amended. This amended framework aligns with the existing Incentive Plan Rules. The Board considers this new LTI framework to be aligned with shareholder interests with a sliding vesting schedule reflecting total returns to shareholders over the performance period.

Performance/ vesting period	3 years
Opportunity	65% of on target incentive delivered as LTI, at no cost to the executive
Instrument	Share rights
Performance metric	Total Shareholder Return (TSR) compound annual growth rate (CAGR) over 3 years
Vesting condition	<p>Subject to remaining an employee of the Group at the vesting date (following the release of the FY23Q4 results), and satisfaction of TSR target metric, share rights will vest in accordance with a sliding vesting schedule. The absolute TSR sliding vesting schedule is as follows:</p> <ul style="list-style-type: none"> - No rights vest if TSR is equal to or less than 15% CAGR - 5% of share rights vest for each 1% increase in CAGR performance between 15% CAGR to 35% CAGR - 100% of share rights vest if TSR is equal to or above 35% CAGR. <p>Awards are subject to a service condition requiring the executive to remain employed by the Group until the end of the vesting period</p>
Rationale for the performance metric and condition	The absolute TSR metric has been deemed by the Committee to be the best market based measure to create alignment between the interests of Management and the interests of shareholders
What happens when a KMP ceases employment?	If the KMP's employment is terminated for cause, or due to resignation, all unvested Share Rights will lapse, unless the Board determines otherwise
Dividends and voting rights	Share rights do not confer on the holder any entitlement to any dividends or other distributions by the Group or any right to attend or vote at any general meeting of the Group

FY21 LTI OUTCOMES

Daniel Bracken, CEO and Andrew Lowe, CFO are the only current KMP eligible to participate in the FY21 LTI. Andrew commenced with the Company in FY18 and participated in that year's LTI, which has three vesting dates (or 'tranches') over consecutive years; Andrew's first tranche of that scheme vested in early FY21. Daniel commenced with Michael Hill in FY19 and participated in that year's LTI, which again has three vesting dates over consecutive years; the first tranche vesting date is early FY22 and is subject to continual employment. Further details of the number of share rights granted to the CEO and CFO in relation to the FY21 LTI can be found later in this report under the heading 'Share Rights'.

NON-EXECUTIVE DIRECTOR REMUNERATION

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 29 June 2016, is not to exceed \$840,000 per annum. Directors' base fees for FY21 year were \$100,419 per annum. The Board Chair receives twice the base fee. Additional fees are paid where a Director is Chair of a committee.

Committee Chair	Fees per Annum
People Development and Remuneration	\$20,747
Audit and Risk	\$31,120

It is the Company's policy to increase Directors' fees annually at the commencement of each financial year, in accordance with the consumer price index. However, in response to the COVID-19 global pandemic market conditions impacting the Company in FY21, there was no increase to any Non-Executive Director's fees at the commencement of, or during, the reporting period.

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director. Non-Executive Directors do not receive performance-related compensation. Directors' fees cover all main Board activities and membership of committees. Non-Executive Directors are not provided with retirement benefits apart from statutory superannuation.



ENGAGEMENT RINGS FROM THE EVERMORE COLLECTION

Company performance - relationship of remuneration to Group performance

The remuneration framework operates to create a clear link between executive remuneration and the Group's performance. The performance of the Group over the past five years is summarised below:

	2021	2020	2019	2018	2017
Revenue (\$'000)	556,486	492,060	569,500	604,319	582,975
EBIT* (\$'000)	72,398	14,079	21,115	8,854	43,840
Profit for the year attributable to owners of the Company (\$'000)	45,328	3,059	16,498	1,557	29,654
Earnings per share	11.68¢	0.79¢	4.26¢	0.40¢	10.66¢
Dividends paid during the financial year [^] (\$'000)	11,636	5,817	19,365	19,371	19,264
Market capitalisation (\$'000)	322,158	131,841	209,385	375,815	430,057
Share price at year end	\$0.83	\$0.34	\$0.54	\$0.97	\$1.11
Compound annual growth rate	148.5%	(34.3)%	(40.2)%	(8.1)%	10.9%
Return on average total assets	9.0%	0.7%	4.3%	8.2%	10.5%

* EBIT and Comparable EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information in the Directors Report for an explanation of Non-IFRS information and a reconciliation of EBIT and Comparable EBIT.

[^] The dividends paid in FY21 are the postponed interim dividend for FY20 and the interim dividend for FY21. No final dividend was declared for FY20.

Profit amounts for 2017 to 2021 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. This also complies with IFRS as issued by the International Accounting Standards Board.

The overall level of remuneration takes into consideration the performance of the Group over several years.

EXECUTIVE KMP REMUNERATION MIX

The total remuneration for the executive KMPs comprises both fixed remuneration and at-risk components in STI and LTI. The mix shown below indicates the potential remuneration based on the current remuneration as at 27 June 2021 with STI presented at maximum opportunity.

Executive KMP	Fixed Remuneration	STI	LTI	Total
Daniel Bracken - CEO	41%	31%	28%	100%
Andrew Lowe - CFO	54%	24%	22%	100%
Andrea Slingsby - COO	81%	19%	-	100%
Vanessa Brennan - CBSO	100%	-	-	100%

FY22 REMUNERATION

For FY22, Director fees increased in line with the Company's policy of CPI increase. Additionally, and in line with the Company's policy on executive remuneration reviews, the base salary of both the CEO and CFO increased by CPI and their superannuation was increased to the adjusted concessional contributions cap. The incentive scheme has been reweighted to balance on target STI with LTI at 50% of total target incentive opportunity for the CEO and CFO. The absolute TSR sliding vesting conditions of the LTI framework for FY22 will be a CAGR-based calculation whereby a prorata achievement of share rights commencing from 10% CAGR, increasing by 10% for every 1% CAGR increment, limited to 100% achievement at 20% CAGR. The committee and Board will continue reviewing the remuneration framework and incentive plans to ensure they continue to align to market and shareholders' best interests. An independent review is underway.

OTHER BENEFITS

KMP do not receive additional benefits, such as non-cash benefits, other than superannuation, as part of the terms and conditions of their appointment. Loans are not provided.

SERVICE CONTRACTS

It is the Group's policy that service contracts for KMP are unlimited in term but capable of termination on three months' notice (six months in the case of the CEO) and that the Group retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice (or six months' in the case of the CEO). KMP are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

DIRECTOR AND EXECUTIVE REMUNERATION OUTCOMES FOR FY21

Details of the nature and amount of each major element of remuneration of each Director of the Company, and other KMP of the consolidated entity are:

	Salary & fees	STI cash bonus	Short-term	Total	Long-term		Post-employment	Share-based payments	Total	Proportion remuneration performance related	Value of rights as proportion of remuneration
			Non-monetary benefits (relocation)		Long service leave	Superannuation benefits	Termination benefits	Share rights			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Non-Executive Directors											
Emma Hill											
2021	194,736	-	-	194,736	-	-	-	-	194,736	-	-
2020	170,849	-	-	170,849	-	-	-	-	170,849	-	-
Sir Richard Michael Hill											
2021	97,368	-	-	97,368	-	-	-	-	97,368	-	-
2020	87,709	-	-	87,709	-	-	-	-	87,709	-	-
Gary Smith											
2021	120,127	-	-	120,127	-	11,412	-	-	131,539	-	-
2020	104,327	-	-	104,327	-	9,911	-	-	114,238	-	-
Robert Fyfe											
2021	117,485	-	-	117,485	-	-	-	-	117,485	-	-
2020	105,545	-	-	105,545	-	-	-	-	105,545	-	-
Jacqueline Naylor (appointed 15/07/2020)											
2021	88,180	-	-	88,180	-	8,377	-	-	96,557	-	-
Janine Allis (retired 27/10/2020)											
2021	30,485	-	-	30,485	-	2,896	-	-	33,381	-	-
2020	78,594	-	-	78,594	-	7,467	-	-	86,061	-	-
Total Director remuneration											
2021	648,381	-	-	648,381	-	22,685	-	-	671,066	-	-
2020	547,024	-	-	547,024	-	17,378	-	-	564,402	-	-

In response to COVID-19, all Directors' fees were reduced 50% for the period from 1 April 2020 to 30 June 2020.

	Salary & fees	STI cash bonus	Short-term		Total	Long-term		Post-employment Termination benefits	Share-based payments Share rights	Total	Proportion remuneration performance related	Value of rights as proportion of remuneration
			Non-monetary benefits (relocation)			Long service leave	Superannuation benefits					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
KMP												
Daniel Bracken, CEO												
2021	1,025,532	620,487	-	1,646,019	16,962	25,000	-	33,716	1,721,697	36.04%	1.96%	
2020	905,142	134,092	-	1,039,234	10,980	25,481	-	15,324	1,091,019	12.29%	1.40%	
Andrew Lowe, CFO												
2021	483,848	184,526	-	668,374	12,930	25,000	-	19,684	725,988	25.42%	2.71%	
2020	429,075	40,021	-	469,096	3,790	25,481	-	9,728	508,095	7.88%	1.91%	
Andrea Slingsby, COO (ceased 22/01/2021)												
2021	293,388	70,000	-	363,388	-	14,904	-	19,909	398,201	17.58%	5.00%	
2020	456,372	32,681	-	489,053	5,862	25,481	-	2,688	523,084	6.25%	0.51%	
Vanessa Brennan, CBSO (commenced 11/08/2020 and ceased 13/12/2020)												
2021	136,657	-	-	136,657	-	8,654	-	13,489	158,800	-	8.49%	
Total KMP remuneration												
2021	1,939,425	875,013	-	2,814,438	29,892	73,558	-	86,798	3,004,686	29.12%	2.89%	
2020	1,790,589	206,794	-	1,997,383	20,632	76,443	-	27,740	2,122,198	9.74%	1.31%	
Total Director and KMP remuneration												
2021	2,587,806	875,013	-	3,462,819	29,892	96,243	-	86,798	3,675,752	23.81%	2.36%	
2020	2,337,613	206,794	-	2,544,407	20,632	93,821	-	27,740	2,686,600	7.67%	1.03%	

Salary and fees include the net leave entitlement accrual, calculated as leave accrued less leave taken. In response to COVID-19, all executive KMP's salaries were reduced by 20% over the same period.



Additional statutory information

EQUITY INSTRUMENTS

All options or rights refer to options or rights over ordinary shares of Michael Hill International Limited, which are exercisable on a one-for-one basis under the executive incentive plan.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS ISSUED AS COMPENSATION MODIFICATION OF TERMS OF EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period. The exercise price of any future option grants will be set by using the same method, with reference to the Australian Securities Exchange ('ASX'). Upon exercise of any option previously granted with a NZ\$ exercise price, the exercise price will be converted to AU\$ with reference to the Reserve Bank of Australian foreign exchange rate on that date.

UNISSUED SHARES

As at the date of this report, there were 1,300,000 unissued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

No options were granted to KMP as compensation for the financial year.

SHARE RIGHTS

The number of share rights issued to KMP and senior executives during FY21 was 4,189,622 share rights. Of these, share rights issued to KMP are set out below.

KMP	Number of share rights issued	Fair value per share right
Daniel Bracken*	2,200,197	14¢
Andrew Lowe	628,814	14¢
Andrea Slingsby (ceased 22/01/2021)	33,311	35¢
Vanessa Brennan (ceased 13/12/2020)	24,285	35¢

* Share rights issued to Daniel Bracken during the reporting period prior to him being appointed as a Director of the Board.

RECONCILIATION OF OPTIONS AND SHARE RIGHTS HELD BY KMP

No options are held by KMP. The number of rights over ordinary shares held during the financial year by KMP, including the number issued, vested, exercised and forfeited is set out below:

KMP share rights rights movements	Balance at start of the year				Balance at end of the year				Value of rights issued during the year
	Vested and Exercisable	Unvested	Issued	Forfeited	Vested	Exercised	Vested & Exercisable	Unvested	
	Number	Number	Number	Number	Number	Number	Number	Number	
Daniel Bracken*	-	110,018	2,200,197	-	-	-	-	2,310,215	317,367
Andrew Lowe	-	50,761	628,814	-	-	-	-	679,575	87,399
Andrea Slingsby [#]	-	19,301	33,311	-	-	-	-	52,612	11,659
Vanessa Brennan ^{#^}	-	49,760	24,285	-	-	-	-	74,045	8,500
Total	-	229,840	2,886,607	-	-	-	-	3,116,447	424,924

* Share rights issued to Daniel Bracken during the reporting period were issued prior to him being appointed as a Director of the Board. Accordingly, shareholder approval was not required pursuant to ASX Listing Rule 10.14.

[#] Andrea Slingsby and Vanessa Brennan ceased to be KMP before financial year end. The "Balance at end of the year" reflects their holdings at the time they ceased to be KMP. The Board resolved that both could retain their share rights on cessation of employment and accordingly the share rights vested to both at the date of the resolution.

[^] Vanessa Brennan became a KMP during the financial year and at that time held the share rights in the opening balance. Share rights relating to FY21 performance are anticipated to be granted in late 2021. The number of shares will depend on the Michael Hill International Limited's share price over the five days prior to the grant date.

SHAREHOLDINGS

The number of ordinary shares held during the financial year by KMP is set out below:

	Balance at start of the year	Received on exercise of rights	Other changes	Balance at end of the year
	Number	Number	Number	Number
Non-Executive Directors				
Emma Hill*	167,487,526	-	-	167,487,526
Sir Richard (Michael) Hill*	148,330,600	-	-	148,330,600
Gary Smith	80,000	-	-	80,000
Robert Fyfe	2,693,640	-	-	2,693,640
Jacqueline Naylor [#]	160,000	-	-	160,000
Janine Allis [^]	651,745	-	-	651,745
KMP				
Daniel Bracken	141,869	-	60,000	201,869
Andrew Lowe	-	-	-	-
Andrea Slingsby [^]	-	-	-	-
Vanessa Brennan ^{#^}	-	-	-	-

* Includes common shareholding due to a related party.

[#] Became a KMP during the financial year and at that time held the ordinary shares in "Balance at the start of the year".

[^] Ceased to be a KMP before financial year end and "Balance at end of the year" reflects their holdings at time of ceasing to be KMP.

VOTING OF SHAREHOLDERS AT LAST YEAR'S ANNUAL GENERAL MEETING

The Company received 99.4% of "For" votes on its remuneration report for FY20. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

INSURANCE OF OFFICERS AND INDEMNITIES

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Company's Directors, Company Secretary and certain other officers. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young (Australia). The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young (Australia) received or are due to receive the following amounts for the provision of non-audit services:

	2021 \$	2021 \$
Ernst & Young (Australia):		
Employment advisory	3,682	10,050
Total remuneration for non-audit services	3,682	10,050

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 52.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made on 20 August 2021 in accordance with a resolution of Directors as required by section 298 of the Corporations Act 2001.



R. I. Fyfe, Chair
Brisbane, 20 August 2021



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Auditor's independence declaration to the Directors of Michael Hill International Limited

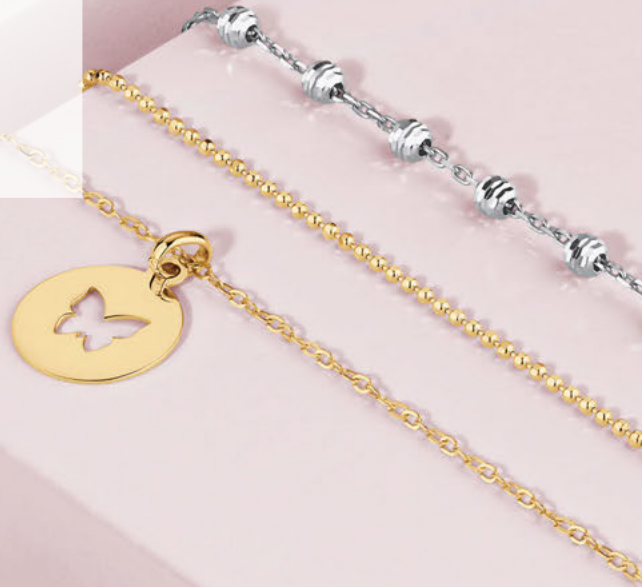
As lead auditor for the audit of the financial report of Michael Hill International Limited for the financial year ended 27 June 2021, I declare to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Michael Hill International Limited and the entities it controlled during the financial year.

Ernst & Young
Ernst & Young

K McKenzie
Kellie McKenzie
Partner
20 August 2021





Financial Statements

ABN 25 610 937 598

The Directors present the consolidated financial statements of Michael Hill International Limited for the year ended 27 June 2021

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Consolidated statement of profit or loss and other comprehensive income

	NOTES	2021 \$'000	2020 \$'000
Revenue from contracts with customers	A2	556,486	492,060
Other income	A3	17,969	20,574
Cost of goods sold		(207,570)	(193,855)
Employee benefits expense	D1	(147,619)	(146,482)
Occupancy costs		(15,135)	(14,390)
Marketing expenses		(28,325)	(28,918)
Selling expenses		(17,959)	(18,701)
Impairment of property, plant and equipment	F5	(1,883)	(6,473)
Impairment of other assets		(3,513)	(1,582)
Depreciation and amortisation expense	F1	(51,293)	(55,611)
Loss on disposal of property, plant and equipment		(448)	(499)
Other expenses		(28,308)	(32,040)
Finance expenses	F1	(7,595)	(9,598)
Profit before income tax		64,807	4,485
Income tax expense	F9	(19,479)	(1,426)
Profit for the year		45,328	3,059

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:

Gains/(losses) on cash flow hedges		34	434
Currency translation differences arising during the year		(173)	(1,716)
Other comprehensive income for the year, net of tax		(139)	(1,282)
Total comprehensive income for the year		45,189	1,777

Total comprehensive income for the year is attributable to:

Owners of Michael Hill International Limited		45,189	1,777
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Earnings per share for profit attributable to the ordinary equity holders of the Company:

Basic earnings per share	F2	11.68¢	0.79¢
Diluted earnings per share	F2	11.63¢	0.79¢

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

ASSETS	NOTES	2021 \$000	2020 \$000
Current assets			
Cash and cash equivalents	B1	72,361	11,204
Trade and other receivables	F3	8,352	25,006
Inventories	A4	171,246	178,742
Assets held for sale	F4	14,397	-
Current tax receivables		732	3,165
Contract assets	A2	406	733
Other current assets		3,576	2,103
Total current assets		271,070	220,953
Non-current assets			
Trade and other receivables	F3	-	10,727
Right-of-use assets	A5	105,882	123,911
Property, plant and equipment	F5	36,453	45,405
Intangible assets	F6	32,845	24,429
Deferred tax assets	F9	60,585	74,468
Contract assets	A2	739	1,048
Other non-current assets		537	677
Total non-current assets		237,041	280,665
Total assets		508,111	501,618
LIABILITIES			
Current liabilities			
Trade and other payables	F7	73,961	64,472
Lease liabilities	A5	34,304	42,164
Contract liabilities	A2	24,157	25,974
Provisions	F8	14,854	24,949
Liabilities directly associated with assets held for sale	F4	1,607	-
Current tax liabilities		1,886	1,445
Deferred revenue		753	367
Total current liabilities		151,522	159,405
Non-current liabilities			
Lease liabilities	A5	99,382	115,848
Contract liabilities	A2	56,393	53,539
Borrowings	B2	-	10,681
Provisions	F8	7,413	8,339
Total non-current liabilities		163,188	188,407
Total liabilities		314,710	347,812
Net assets		193,401	153,806
EQUITY			
Contributed equity	F11	11,285	11,016
Reserves	F12	4,221	4,420
Retained profits		177,895	138,370
Total equity		193,401	153,806

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

Attributable to owners of Michael Hill International Limited	Notes	Contributed equity	Share based payments reserve	Foreign currency translation reserve	Cash flow hedge reserve	Retained profits	Total equity
		\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2019		10,984	757	5,516	(468)	159,963	176,752
Adjustment on adoption of AASB16 (net of tax)		-	-	(43)	-	(13,019)	(13,062)
Restated total equity at the beginning of the financial year		10,984	757	5,473	(468)	146,944	163,690
Profit for the year		-	-	-	-	3,059	3,059
Currency translation differences		-	-	(1,716)	-	-	(1,716)
Derivative fair value changes		-	-	-	434	-	434
Total comprehensive income for the year		-	-	(1,716)	434	3,059	1,777
Transactions with members in their capacity as owners:							
Dividends provided	B3	-	-	-	-	(11,633)	(11,633)
Issue of share capital on exercise of share rights	F11	32	(32)	-	-	-	-
Transfer option reserve on forfeiture of options	D3	-	(166)	-	-	-	(166)
Share based payments expense	D3	-	138	-	-	-	138
		32	(60)	-	-	(11,633)	(11,661)
Balance at 28 June 2020		11,016	697	3,757	(34)	138,370	153,806
Profit for the year		-	-	-	-	45,328	45,328
Currency translation differences		-	-	(173)	-	-	(173)
Derivative fair value changes		-	-	-	34	-	34
Total comprehensive income for the year		-	-	(173)	34	45,328	45,189
Transactions with members in their capacity as owners:							
Dividends provided	B3	-	-	-	-	(5,820)	(5,820)
Issue of share capital on exercise of share rights	F11	269	(269)	-	-	-	-
Transfer option reserve on forfeiture of options	D3	-	(17)	-	-	17	-
Share based payments expense	D3	-	226	-	-	-	226
		269	(60)	-	-	(5,803)	(5,594)
Balance at 27 June 2021		11,285	637	3,584	-	177,895	193,401

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	NOTES	2021 \$000	2020 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		657,320	547,258
Payments to suppliers and employees (inclusive of GST and sales taxes)		(484,021)	(451,577)
		173,299	95,681
Interest received		4	4
Other revenue received		14,442	13,193
Interest paid		(1,036)	(2,261)
Leasing interest paid	A5	(6,653)	(7,628)
Income tax paid		(4,082)	(3,974)
Net GST and sales taxes paid		(32,522)	(18,944)
Net cash inflow from operating activities	B1	143,452	76,071
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		73	146
Payments for property, plant and equipment	F5	(6,430)	(6,112)
Payments for intangible assets	F6	(12,597)	(11,241)
Net cash (outflow) from investing activities		(18,954)	(17,207)
Cash flows from financing activities			
Proceeds from borrowings		2,000	70,500
Repayment of borrowings		(12,682)	(92,300)
Principal portion of lease payments	A5	(40,997)	(27,892)
Dividends paid to Company's shareholders	B3	(11,636)	(5,817)
Net cash (outflow) from financing activities		(63,315)	(55,509)
Net increase in cash and cash equivalents		61,183	3,355
Cash and cash equivalents at the beginning of the financial year		11,204	7,923
Effects of exchange rate changes on cash and cash equivalents		(25)	(74)
Cash and cash equivalents at the end of the financial year	B1	72,361	11,204

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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Corporate information

The consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the year ended 27 June 2021 were authorised for issue in accordance with a resolution of the Directors on 20 August 2021. Michael Hill International Limited (the Company or Parent) is a for profit company limited by shares incorporated in Australia. The Company is listed on the Australian Securities Exchange ('ASX') as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

A Financial overview

A1 Segment information

Management have determined the operating segments based on the reports reviewed by the Board and Executive Leadership Team that are used to make strategic decisions. The Board and Executive Leadership Team consider, organise and manage the business primarily from a geographic perspective, being the country of origin where the sale and service was performed.

The amounts provided to the Board and Executive Leadership Team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

The Group's operations are in three geographical segments: Australia, New Zealand and Canada.

The Corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill retail segments. These predominately relate to corporate costs and Australian based support costs, but also include manufacturing activities, warehouse and distribution, interest and company tax. Inter-segment pricing is at arm's length or market value.

The segment disclosures are prepared on a pre-AASB16 *Leases* basis. An adjustment column, representing the Group's entries due to AASB16 *Leases*, has been included for the purposes of reconciliation to statutory results.

Types of products and services

Michael Hill International Limited and its controlled entities operate predominately in the sale of jewellery and related services.

Major customers

Michael Hill International Limited and its controlled entities sell goods and provide services to a number of customers from which revenue is derived. There is no single customer from which the Group derives more than 10% of total consolidated revenue.

SEGMENT RESULTS

	Australia \$000	New Zealand \$000	Canada \$000	Corporate and other \$000	Group pre-AASB16 \$000	AASB16 adjustment \$000	Group \$000
Year ended 27 June 2021							
Operating revenue	312,264	118,663	123,930	1,629	556,486	-	556,486
Gross profit	194,148	73,554	76,017	5,197	348,916	-	348,916
Gross profit %	62.2%	62.0%	61.3%		62.7%		62.7%
EBITDA*	69,250	35,117	20,935	(40,411)	84,891	38,800	123,691
Depreciation and amortisation	(6,361)	(1,996)	(5,100)	(3,233)	(16,690)	(34,603)	(51,293)
Segment EBIT*	62,889	33,121	15,835	(43,644)	68,201	4,197	72,398
EBIT as a % of revenue	20.1%	27.9%	12.8%		12.3%		13.0%
Interest income	-	-	-	4	4	-	4
Finance costs	(68)	(7)	-	(867)	(942)	(6,653)	(7,595)
Net profit before tax	62,821	33,114	15,835	(44,507)	67,263	(2,456)	64,807
Income tax expense							(19,479)
Net profit after tax							45,328
Year ended 28 June 2020							
Operating revenue	266,610	101,276	123,038	1,136	492,060	-	492,060
Gross profit	161,030	60,412	71,075	5,687	298,204	-	298,204
Gross profit %	60.4%	59.7%	57.8%		60.6%		60.6%
EBITDA*	35,102	22,554	3,471	(33,971)	27,156	42,534	69,690
Depreciation and amortisation	(7,692)	(2,550)	(6,031)	(2,355)	(18,628)	(36,983)	(55,611)
Segment EBIT*	27,410	20,004	(2,560)	(36,326)	8,528	5,551	14,079
EBIT as a % of revenue	10.3%	19.8%	(2.1)%		1.7%		2.9%
Interest income	-	-	-	4	4	-	4
Finance costs	145	16	-	(2,131)	(1,970)	(7,628)	(9,598)
Net profit before tax	27,555	20,020	(2,560)	(38,453)	6,562	(2,077)	4,485
Income tax expense							(1,426)
Net profit after tax							3,059

* EBIT and EBITDA are non-IFRS information. Please refer to non-IFRS information in the Directors' Report for an explanation of non-IFRS information and a reconciliation of EBIT to statutory results.

Notes to the financial statements cont.

A2 Revenue

	2021 \$000	2020 \$000
Revenue from sale of goods and repair services	525,781	460,393
Revenue from Professional Care Plans (PCP)*	27,310	27,478
Interest and other revenue from in-house customer finance program	2,792	3,958
Revenue from Lifetime Diamond Warranty (LTDW)	603	231
Total revenue from contracts with customers	556,486	492,060

* During the financial year ended 27 June 2021, the Group did not recognise revenue of \$1.3m (2020: \$2.1m) for PCP services in Canada from February to June 2021 due to the inability to service customers from temporary closure of stores due to COVID-19. Revenue not recognised and deferred in the prior period was recognised in the current reporting period.

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following geographical regions:

	Australia \$000	New Zealand \$000	Canada \$000	Corporate and other \$000	Total \$000
2021					
Timing of revenue recognition					
At a point in time	296,723	113,547	114,099	1,412	525,781
Over time	15,541	5,116	9,831	217	30,705
	312,264	118,663	123,930	1,629	556,486
2020					
Timing of revenue recognition					
At a point in time	249,852	95,770	114,145	626	460,393
Over time	16,758	5,506	8,893	510	31,667
	266,610	101,276	123,038	1,136	492,060

ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(i) Sale of goods

Sales of goods are recognised when a Group entity delivers a product to the customer. Retail sales are usually by cash, payment plan or credit card. The recorded revenue is the gross amount of sale (excluding taxes), including any fees payable for the transaction and net amounts deferred under AASB15 *Revenue from Contracts with Customers* such as significant financing components and potential customer returns.

(ii) Repair services

Sales of services for repair work performed is recognised in the accounting period in which the services are performed.

(iii) Deferred service revenue and expenses

The Group offers a PCP product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services, such as cleaning, repairs and resizing, to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the statement of comprehensive income once these services are performed. An estimate based on the timing and quantum of expected services under the plans is used as a basis to establish the amount of service revenue to recognise in the Consolidated Statement of Comprehensive Income.

Direct and incremental sales staff bonuses associated with the sale of PCPs are capitalised in contract assets and amortised in proportion to the PCP revenue recognised.

(iv) Deferred interest revenue

Interest revenue is deferred on the in-house customer finance program when the sale of the good or service occurs. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

(v) **Right of return assets and liabilities**

Rights of return recognises the estimated returned sales under the Group's return policy, being 30 day change of mind in Australia and New Zealand and 60 day change of mind in Canada.

Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a right of return liability. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset.

(vi) **Lifetime Diamond Warranty**

LTDW is a warranty provided to customers with the purchase of jewellery items set with a diamond (excluding watches). This has been deemed a service-type warranty and is calculated with reference to the estimated value of service provided to customers and the stand-alone value of customers obtaining the service independently. Income in relation to the LTDW is recognised in line with the estimated pattern of customers utilising this service-type warranty.

	2021	2020
	\$000	\$000
ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS		
Right of return assets	58	108
Deferred PCP bonuses	1,087	1,673
Total contract assets	1,145	1,781
Deferred service revenue	76,581	73,856
Deferred interest revenue	-	2,918
Right of return liabilities	148	250
Lifetime Diamond Warranty	3,821	2,489
Total contract liabilities	80,550	79,513

REVENUE RECOGNISED IN RELATION TO CONTRACT LIABILITIES

The following table shows how much of the revenue recognised in the current reporting year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied or partially satisfied in a prior year:

	2021	2020
	\$000	\$000
Revenue recognised that was included in the contract liability balance at the beginning of the year	22,243	22,300
Impact on revenue recognised relating to performance obligations satisfied in previous years	(1,305)	-

Revenue recognition patterns are regularly reassessed based on new and historical trends resulting in remeasurement of revenue recognised in previous years.

A3 Other income

	2021	2020
	\$000	\$000
Net foreign exchange gain	2,367	2,382
Government grants	14,593	17,678
Other items	1,009	514
	17,969	20,574

The Group received grants in relation to COVID-19 wage subsidies in all three markets. These grants were accounted for as income upon recognition of the corresponding employee benefit expense as satisfactory prerequisites of the grant were met. Further information regarding wage subsidies is disclosed in note I2.

Notes to the financial statements cont.

A4 Inventories

	2021 \$000	2020 \$000
Raw materials	12,435	6,313
Finished goods	156,199	169,094
Packaging and other consumables	2,612	3,335
	171,246	178,742

Finished goods are held at the lower of cost or net realisable value (NRV). During the year, \$2,327,000 (2020: \$5,608,000) was recognised as an expense for finished goods inventories carried at NRV. This is recognised in cost of goods sold.

A5 Leases

	2021 \$000	2020 \$000
RIGHT-OF-USE ASSETS		
Right-of-use assets	179,524	162,380
Less: Accumulated depreciation	(72,925)	(37,654)
Less: Accumulated impairment	(717)	(815)
	105,882	123,911

Reconciliation of right-of-use assets

Opening carrying value	123,911	142,833
Additional right-of-use assets relating to leases entered into during the year	13,311	21,702
Lease modifications agreed during the year	7,581	(126)
Depreciation expense	(35,357)	(37,876)
Reduction in right-of-use assets as a consequence of COVID-19 on rent concessions	(3,902)	(2,033)
Impairment of right-of-use assets	-	(815)
Foreign currency translation	338	226
Closing carrying value	105,882	123,911

LEASE LIABILITIES

Current	34,304	42,164
Non-current	99,382	115,848
	133,686	158,012

Reconciliation of lease liabilities

Opening carrying value	158,012	166,322
Additional lease liabilities entered into during the year	13,177	21,671
Lease modifications agreed during the year	7,517	14
Net reduction in future lease payments agreed as a consequence of COVID-19 on rent concessions	(3,902)	(2,033)
Interest expense	6,653	7,628
Lease repayments	(47,650)	(35,520)
Foreign currency translation	(121)	(70)
Closing carrying value	133,686	158,012

The incremental borrowing rate used in determining the lease liability ranged between 1.47% and 7.12% (2020: 1.85% and 6.95%). Expenses relating to short-term leases during the period of \$6,444,000 (2020: \$4,467,000) were included in occupancy costs.

ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets which are recognised in the profit or loss. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to AASB16 *Leases*. The amendments provide relief to lessees from applying AASB16 *Leases* guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under AASB16 *Leases*, if the change were not a lease modification. The Group has applied this practical expedient in the consolidated financial statements for all COVID-19 impacted leases. Where the practical expedient has been applied, the Group has remeasured its lease liabilities, using the remeasured consideration (e.g., reflecting the lease payment reduction or lease payment deferral provided by the lessor), with a corresponding adjustment to the right-of-use asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in note 11(f).

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payment (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group has several lease contracts that include extension options. These options are negotiated by Management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (refer to note 12).

Set out below are the undiscounted potential future rental payments relating to the period following the exercise date of extension options that are not included in the lease term:

	2021		2020			
	Within five years	More than five years	Total	Within five years	More than five years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Extension options expected not to be exercised	277	55	332	455	60	515

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are expensed on a straight-line basis over the lease term.

Notes to the financial statements cont.

B Cash management

B1 Cash and cash equivalents

	2021 \$000	2020 \$000
Cash at bank and on hand	72,361	11,204
Reconciliation of profit after income tax to net cash inflow from operating activities		
	2021 \$000	2020 \$000
Profit for the year	45,328	3,059
Adjustment for:		
Depreciation of property, plant and equipment	11,746	15,484
Depreciation of right-of-use assets	35,357	37,876
Amortisation of intangible assets	4,190	2,251
Impairment of property, plant and equipment	1,883	6,473
Impairment of other assets	3,513	1,579
Impairment of intangibles assets	-	3
Non-cash employee benefits expense - share-based payments	226	(25)
Make good interest	(57)	(228)
Net loss on sale of non-current assets	448	442
Net exchange differences	2,998	1,143
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	13,163	1,490
(Increase)/decrease in inventories	7,663	(206)
(Increase)/decrease in deferred tax assets	16,121	(1,430)
(Increase)/decrease in other non-current assets	451	2,324
(Increase)/decrease in other current assets	(1,192)	89
(Decrease)/increase in trade and other payables	6,635	12,987
(Decrease)/increase in current tax liabilities	2,896	8,509
(Decrease)/increase in provisions	(11,114)	(6,121)
(Decrease)/increase in contract liabilities	3,197	(2,000)
Net cash inflow from operating activities	143,452	83,699

B2 Borrowings

	2021			2020		
	Current \$000	Non- current \$000	Total \$000	Current \$000	Non- current \$000	Total \$000
Bank loans	-	-	-	-	10,681	10,681
Total secured borrowings	-	-	-	-	10,681	10,681

On 24 March 2021, the Group entered into a financing agreement with ANZ Banking Group and HSBC Australia for an availability period of three years. The financial arrangement includes a \$72 million multi-option borrowing facility and ancillary working capital facilities in line with the business requirements of the Group. At balance date no amounts were drawn on these facilities. Refer to note C3 for details of covenants relating to the financing facilities.

B3 Dividends

	2021 \$000	2020 \$000
Ordinary shares		
No final dividend was declared for the year ended 28 June 2020 (2019: 1.5¢)	-	5,817
Interim dividend for the year ended 27 June 2021 of 1.5¢ (2020: 1.5¢) per fully paid share paid on 26 March 2021 (2020: 29 January 2021)	5,820	5,816
	5,820	11,633

The interim dividend for the year ended 28 June 2020 of \$5,816,000, originally deferred to 30 September 2021 for payment, was paid on 29 January 2021.

Dividends not recognised at the end of the reporting period

Since year-end, the Directors have recommended a 3¢ per fully paid share (2020: no final dividend declared) final dividend.

11,644	-
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Franking and imputation credits

Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2020: 30.0%)

2,552	2,174
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Imputation credits (NZ\$) available for subsequent reporting periods based on New Zealand tax rate of 28.0% (2020: 28.0%)

18,072	18,474
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The dividends paid during the current financial period and corresponding previous financial period were fully imputed and not franked.

The above franking credit amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment and refund of income tax payable.

The above imputation credit amounts represent the balance of the imputation account as at the end of the financial year, adjusted for imputation credits that will arise from the payment and refund of income tax payable.

As the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be unfranked there will be no reduction in the franking account.

The impact on the imputation credit account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, is estimated to be a reduction in the imputation credit account of NZ\$4,736,175 (2020: no dividend declared). The amount of imputation credits is dependent on the NZD exchange rate at the time of the dividend.

C Financial risk management

C1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group seeks to use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures as required. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and aging analysis for credit risk.

Notes to the financial statements cont.

C1 Financial risk management cont.

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in AUD	Cash flow forecasting and sensitivity analysis	Forward foreign exchange contracts
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents and trade receivables	Ageing analysis	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's overall risk management program includes a focus on financial risk including the unpredictability of financial markets and foreign exchange risk.

The policies are implemented by the central finance function that undertakes regular reviews to enable prompt identification of financial risks so that appropriate actions may be taken.

MARKET RISK

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Where it is considered appropriate, the Group enters into forward foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a pre-determined exchange rate.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting year, expressed in transactional currency, was as follows:

	27 June 2021			28 June 2020		
	USD \$000	NZD \$000	CAD \$000	USD \$000	NZD \$000	CAD \$000
Cash and cash equivalents	1,633	7	4	36	64	43
Trade receivables	839	-	8	500	-	-
Trade payables	(15,723)	(36)	(42)	(7,539)	-	(2)
Forward exchange contracts:						
Buy foreign currency	7,780	-	-	-	-	-
Sell foreign currency	-	(5,000)	(5,000)	-	-	-
Net foreign currency exposure	(5,471)	(5,029)	(5,030)	(7,003)	64	41

Sensitivity

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign currency risk. The foreign exchange sensitivities are based on the Group's exposure existing at balance date. Sensitivity figures are pre-tax.

	Impact on pre-tax profit		Impact on other components of equity	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Foreign exchange rate sensitivities				
AUD increases 10%	1,574	831	-	-
AUD decreases 10%	(1,924)	(1,016)	-	-

INTEREST RATE RISK

The Group had no borrowings and a cash surplus at the end of the reporting period. The interest rate for cash balances is currently close to nil so the Group is not exposed to any interest rate downside risk. The current variable rate borrowings are detailed below:

	\$000	2021 % of total loans	\$000	2020 % of total loans
Variable rate borrowings	-	n/a	10,681	100.0%

Instruments used by the Group

Historically, interest rate swaps are used to manage the Group's interest rate exposure. At 27 June 2021, the Group had no borrowings and there were no swaps in place (2020: 46.8% of the variable rate principal outstanding). The details of the variable rate borrowings and interest rate swap contracts outstanding are outlined below.

	27 June 2021		28 June 2020	
	Weighted average interest rate %	Balance \$000	Weighted average interest rate %	Balance \$000
Bank overdrafts and bank loans	n/a	-	1.88%	10,681
Interest rate swaps (notional principal amount)	n/a	-	4.63%	5,000
Net exposure to cash flow interest rate risk		-		5,681

Sensitivity[^]

As the Group has a cash surplus with no borrowings, profit or loss is sensitive to higher/lower interest revenue from cash and cash equivalents as a result of changes in interest rates. All other non-derivative and non-lease financial liabilities have a contractual maturity of less than six months.

	Impact on post-tax profit		Impact on other components of equity	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Interest rates - increase by 100 basis points	724	(107)	-	(15)
Interest rates - decrease by 100 basis points*	-	107	-	(36)

* Deposit rates are close to nil. Negative interest rates have not been modelled due to the low probability of this occurring within the geographical segments in which the Group trades.

[^] Sensitivity for prior year is based on the Group being in a borrowing position. Cash balances in prior year were not considered material for sensitivity analysis purposes.

CREDIT RISK

Credit risk is managed on a Group basis and refers to the risk of a counterparty failing to discharge an obligation. In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group places its cash and short term deposits with only high credit quality financial institutions. Sales to retail customers are required to be settled via cash, major credit cards or passed onto various credit providers in each country.

At the reporting date, no material credit risk exposure existed in relation to potential counterparty failure on financial instruments. Other than the loss allowance recognised in trade and other receivables in note F3, no financial assets were impaired or past due. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets disclosed in note F3.

Notes to the financial statements cont.

C1 Financial risk management cont.

LIQUIDITY RISK

The Group maintains prudent liquidity risk management with sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Financing arrangements

The Group's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets.

The Group had access to the following undrawn borrowing facilities at the end of the reporting year:

	2021 \$000	2020 \$000
Floating rate		
Expiring beyond one year (bank overdrafts)	1,932	1,935
Expiring beyond one year (bank loans)	70,000	46,248
	71,932	48,183

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting year.

Contractual maturities of financial liabilities	Less than 6 months \$000	6 - 12 months \$000	Between 1 and 2 years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000
At 27 June 2021						
Non-derivatives						
Lease liabilities	19,831	18,300	30,378	51,179	34,661	154,349
Trade payables	73,961	-	-	-	-	73,961
Borrowings	-	-	-	-	-	-
Total non-derivatives	93,792	18,300	30,378	51,179	34,661	228,310
Derivatives						
Gross settled (FECs)	232	-	-	-	-	232
Net settled (interest rate swaps)	-	-	-	-	-	-
	232	-	-	-	-	232
At 28 June 2020						
Non-derivatives						
Lease liabilities	10,065	1,168	9,954	59,411	77,414	158,012
Trade payables	64,964	-	-	-	-	64,964
Borrowings	-	-	10,681	-	-	10,681
Total non-derivatives	75,029	1,168	20,635	59,411	77,414	233,657
Derivatives						
Gross settled (FECs)	69	-	-	-	-	69
Net settled (interest rate swaps)	34	-	-	-	-	34
	103	-	-	-	-	103

C2 Derivative financial instruments

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk.

The Group's risk management strategy and how it is applied to manage risk are explained below.

ACCOUNTING POLICY

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below.

Fair value hedge

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as interest rate swaps for its exposure to volatility in interest rates. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to interest rate swaps is recognised in other operating income or expenses.

When forward contracts are used to hedge forecast transactions, the group designates the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the cash flow hedge reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

Notes to the financial statements cont.

C2 Derivative financial instruments cont.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting year.

Derivatives not designated as hedging instruments

The Group uses foreign currency-denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to six months.

Hedging reserves

The Group's hedging reserves are disclosed in the statement of changes in equity.

A loss of \$34,000 (2020: \$434,000 loss) was reclassified from the cash flow hedge reserve to profit or loss during the year.

Amounts recognised in profit or loss

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the following amounts were recognised in profit or loss in relation to derivatives:

	2021 \$000	2020 \$000
Net foreign exchange gain/(loss) included in other gains/(losses)	232	169

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of interest rate risk, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

There was no recognised ineffectiveness during 2021 or 2020 in relation to the interest rate swaps.

C3 Capital management

The Group's objectives when managing capital are to:

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated and reported to the banks quarterly on a pre-AASB16 *Leases* basis. The principal covenants relating to capital management are the EBIT fixed cover charge ratio, consolidated debt to EBITDA, consolidated debt to capitalisation, and consolidated debt to inventory. There have been no breaches of these covenants and the Group continues to collaborate with the external financing partners as required.

D Reward and recognition

D1 Employee benefits

	2021 \$000	2020 \$000
Employee wages	133,147	131,548
Employee wages on-costs and post-retirement benefits	14,246	14,796
Employee share-based payments expense	226	138
	147,619	146,482

D2 Key management personnel

	2021 \$	2020 \$
Short-term employee benefits	2,814,438	1,997,383
Long-term benefits	29,892	20,632
Post-employment benefits	73,558	76,443
Share-based payments	86,798	27,740
	3,004,686	2,122,198

D3 Share-based payments

OPTIONS

Options are granted from time to time at the discretion of Directors to senior executives within the Group. Motions to issue options to related parties of Michael Hill International Limited are subject to the approval of shareholders at the Annual General Meeting in accordance with the Company's constitution.

Options are granted under the plan for no consideration. Options expire ten years after granted, vest over five years and are exercisable at any time during the final five years.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options granted under the plan:

	2021 average exercise price per option \$	2021 Number of options	2020 average exercise price per option \$	2020 Number of options
As at 29 June 2020 NZD options	1.56	1,100,000	1.58	1,900,000
Expired during the year	0.88	(100,000)	0.94	(100,000)
Forfeited during the year	-	-	1.70	(700,000)
As at 27 June 2021 NZD options	1.63	1,000,000	1.56	1,100,000
As at 29 June 2020 AUD options	1.56	300,000	1.56	600,000
Expired during the year	-	-	-	-
Forfeited during the year	-	-	1.56	(300,000)
As at 27 June 2021 AUD options	1.56	300,000	1.56	300,000

Notes to the financial statements cont.

D3 Share-based payments cont.

Options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	2021	2020
17 September 2010	30 September 2020	NZ\$0.88	-	100,000
16 November 2011	30 September 2021	NZ\$1.16	100,000	100,000
19 September 2012	30 September 2022	NZ\$1.41	100,000	100,000
18 September 2013	30 September 2023	NZ\$1.82	100,000	100,000
29 November 2013	30 September 2023	NZ\$1.82	500,000	500,000
10 November 2014	30 September 2024	NZ\$1.63	100,000	100,000
5 October 2017	30 September 2027	AU\$1.44	100,000	100,000
22 September 2016	30 September 2026	AU\$2.12	100,000	100,000
22 January 2016	30 September 2025	NZ\$1.14	100,000	100,000
22 September 2018	30 September 2028	AU\$1.11	100,000	100,000
			1,300,000	1,400,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.2 years (2020: 3.9 years).

The exercise price will be converted to Australian dollars using the Reserve Bank of Australia exchange rate on the day the option is exercised.

SHARE RIGHTS

The Company introduced a deferred compensation plan (LTI) involving the granting of share rights to eligible participants in 2016 and was approved by shareholders at the Company's Annual General Meeting held on 31 October 2016.

Under the plan, a senior executive may be granted share rights by the Company. Each share right represents a right to receive one ordinary share in the Company, subject to the terms and conditions of the rules of the plan.

An allocation of share rights is made to each eligible participant on an annual basis to a value of 65% of their target opportunity. The performance metric used is Total Shareholder Return (TSR) compound annual growth rate (CAGR) over three years.

Subject to remaining an employee of the Group for a period of three years and satisfaction of TSR target metric, share rights will vest in accordance with the sliding vesting schedule:

- no share rights vest if TSR is equal to or less than 15% CAGR
- 5% share rights vest for each 1% increase in CAGR performance between 15% CAGR to 35% CAGR
- 100% share rights vest if TSR is equal to or above 35% CAGR

During the year, the Board agreed to grant 4,189,622 share rights to eligible participants of the deferred compensation plan, subject to continual employment for a period three years and an absolute Total Shareholder Return condition for vesting in three years.

	2021 average fair value per share right \$	2021 Number of share rights	2020 average fair value per share right \$	2020 Number of share rights
Outstanding at 29 June 2020	0.81	788,798	0.54	521,609
Granted	0.15	4,189,622	0.57	286,294
Exercised	0.72	(373,044)	1.66	(19,105)
Forfeited	1.41	(27,858)	-	-
Outstanding at 27 June 2021	0.20	4,577,518	0.81	788,798

The number of share rights in each tranche is based on the prescribed dollar value for each tranche divided by the volume weighted average share price ('VWAP') of Michael Hill International Limited shares over ten trading days following the Michael Hill International shares trading subsequent to the final quarterly trade announcement.

Share rights issued during the current financial year used the Monte Carlo model to determine the fair value of share rights using the following inputs:

	2021	2020
Number of rights	3,878,533	286,294
Share price	\$0.39	\$0.68
Annualised volatility	45%	40%
Expected dividend yield	10.0%	6.5%
Risk free rate	0.27%	0.75%
Fair value of share rights	\$0.13	\$0.57

Further to the share rights issued above, there were an additional 311,089 share rights issued on 6 October 2020 with a fair value of \$0.35 per right.

	2021	2020
	\$000	\$000
Expenses arising from share-based payment transactions	226	166

ACCOUNTING POLICY

Options

The fair value was measured at grant date and is recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during prior financial years was independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, market performance conditions, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (eg the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified period), and
- including the impact of any non-vesting conditions (eg the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each year, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

Share rights

Share rights are granted to eligible senior executives in accordance with the Company's deferred compensation plan ('LTI'). The fair value of rights granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value was measured at grant date using the Monte Carlo method and is recognised over the period during which the employees become unconditionally entitled to the rights.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each year, the entity revises its estimates of the number of share rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon the exercise of the share rights, the balance of the share-based payments reserve relating to those rights is transferred to share capital.

Notes to the financial statements cont.

E Related parties

	2021 \$	2020 \$
Related party transactions:		
Services rendered for graphic design of the annual report by a related party of board members	13,559	13,945

All transactions with related parties were in the normal course of business and on normal terms and conditions.

F Other information

F1 Expenses

NOTES	2021 \$000	2020 \$000
Depreciation and amortisation		
Depreciation on property, plant and equipment	F5 11,746	15,484
Depreciation on right-of-use asset	A5 35,357	37,876
Total depreciation	47,103	53,360
Amortisation on software	F6 4,190	2,251
Total amortisation	4,190	2,251
Total depreciation and amortisation	51,293	55,611

Finance costs

Interest on lease liabilities	A5 6,653	7,628
Bank and interest charges	999	2,198
Interest on make good provision	(57)	(228)
	7,595	9,598

F2 Earnings per share

Reconciliation of earnings used in calculating earnings per share

	2021 \$000	2020 \$000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	45,328	3,059
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	45,328	3,059

Weighted average number of shares used as the denominator

	2021 Number	2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	387,924,289	387,766,481
Adjustments for calculation of diluted earnings per share:		
Share rights	1,771,137	574,013
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	389,695,426	388,340,494

Options and share rights granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. All options outstanding at financial year end were considered to be non-dilutive. The options and share rights have not been included in the determination of basic earnings per share. Details are set out in note D3.

F3 Trade and other receivables

	Current \$000	Non-current \$000	2021 Total \$000	Current \$000	Non-current \$000	2020 Total \$000
Trade receivables	6,555	-	6,555	3,432	-	3,432
Provision for expected credit loss	(373)	-	(373)	(340)	-	(340)
	6,182	-	6,182	3,092	-	3,092
Canadian in-house customer finance	-	-	-	14,576	11,021	25,597
Provision for expected credit loss	-	-	-	(1,143)	(294)	(1,437)
	-	-	-	13,433	10,727	24,160
Sundry debtors	2,170	-	2,170	8,481	-	8,481
	8,352	-	8,352	25,006	10,727	35,733

Trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms.

Canadian in-house customer finance

The terms available to customers range from an interest-bearing revolving line of credit through to interest free terms of between six and 40 months, although 12 to 18 months is the typical financing period.

The receivables from the in-house customer finance program are comprised of a large number of transactions with no one customer representing a significant balance. The finance portfolio consists of contracts of similar characteristics that are evaluated collectively for expected credit losses (ECL).

The Canadian in-house customer finance loan book was determined to be an asset held for sale as at 27 June 2021, refer to note F4.

Sundry debtors

Sundry debtors relates to supplier credits, security deposits and other sundry receivables. Based on the credit history of these debtors, it is expected that these amounts will be received when due and no impairment is recognised.

Effective interest rates

All receivables are non-interest bearing except for a small portion of in-house customer finance receivables. In-house customer finance receivables are recognised net of significant financing components determined in accordance with AASB15 *Revenue from Contracts with Customers*.

ECL and risk exposure

An ECL analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program and trade receivables. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to these receivables as low. For further details refer to note C1.

Ageing of trade receivables

	2021 \$000	2020 \$000
Current	5,961	3,027
< 30 days past due	298	199
30 - 60 days past due	77	(2)
60+ days past due	219	208
	6,555	3,432

Movements in the provision for ECL of trade receivables are as follows:

	2021 \$000	2020 \$000
Opening balance	340	409
Net amounts written back/(written off)	17	(193)
Additional provisions recognised	16	125
Exchange differences	-	(1)
Closing balance	373	340

Notes to the financial statements cont.

F4 Assets held for sale and directly associated liabilities

	2021 \$000
Canadian in-house customer finance debtors	<u>14,397</u>
Total assets held for sale	<u>14,397</u>
Deferred interest revenue	<u>1,607</u>
Total liabilities directly associated with assets held for sale	<u>1,607</u>

During the period, the Group conducted a strategic review of the Canadian in-house customer credit book. At reporting date, as the sale is considered probable and expected to be completed within a year from reporting date, it is presented as held for sale.

Receivables relating to the credit book and associated liabilities were classified as assets held for sale, alongside the corresponding liability, deferred interest revenue. The carrying value of the credit book was written down to Management's best estimate of net proceeds of the sale and estimated costs of disposal. This resulted in an expense of \$2,986,000 in the period being recognised as Impairment of other assets. This estimate is based on significant unobservable inputs (Level 3 under AASB13 *Fair Value Measurement Hierarchy*) which includes assumptions in relation to the terms of the eventual sale which may differ from this estimate.

The loss recognised on this asset is included in the Canada Segment in note A1.

F5 Property, plant and equipment

	Plant and equipment \$000	Fixtures and fittings \$000	Motor vehicles \$000	Leasehold improvements \$000	Display materials \$000	Total \$000
At 1 July 2019						
Cost	32,867	33,153	366	85,774	15,449	167,609
Accumulated depreciation and impairment	(21,961)	(23,171)	(277)	(49,962)	(9,025)	(104,396)
Net book amount	10,906	9,982	89	35,812	6,424	63,213
Year ended 28 June 2020						
Opening net book amount	10,906	9,982	89	35,812	6,424	63,213
Adjustment for change in accounting policy	-	-	-	(2,653)	-	(2,653)
Exchange difference	(48)	(52)	-	(265)	19	(346)
Additions	1,852	1,819	-	3,133	1,065	7,869
Disposals	(190)	(119)	(38)	(240)	(131)	(718)
Transfers	90	253	-	(346)	-	(3)
Depreciation charge	(3,617)	(3,373)	(35)	(6,540)	(1,919)	(15,484)
Impairment loss	(738)	(404)	-	(2,016)	(3,315)	(6,473)
Closing net book amount	8,255	8,106	16	26,885	2,143	45,405
At 28 June 2020						
Cost	32,831	34,431	47	78,164	15,197	160,670
Accumulated depreciation and impairment	(24,576)	(26,325)	(31)	(51,279)	(13,054)	(115,265)
Net book amount	8,255	8,106	16	26,885	2,143	45,405
Year ended 27 June 2021						
Opening net book amount	8,255	8,106	16	26,885	2,143	45,405
Exchange difference	(52)	9	(1)	47	43	46
Additions	2,109	792	-	3,279	250	6,430
Disposals	(413)	(38)	(12)	(1,092)	(244)	(1,799)
Depreciation charge	(2,938)	(2,604)	(3)	(5,329)	(872)	(11,746)
Impairment loss	(349)	(126)	(0)	(1,357)	(51)	(1,883)
Closing net book amount	6,612	6,139	-	22,433	1,269	36,453
At 27 June 2021						
Cost	33,906	34,291	-	78,996	2,184	149,377
Accumulated depreciation and impairment	(27,294)	(28,152)	-	(56,563)	(915)	(112,924)
Net book amount	6,612	6,139	-	22,433	1,269	36,453

Impairment loss

As per the Group's accounting policies, the Group impairs assets where the recoverable amount is less than the carrying amount. This also includes assets held at stores facing closure. Any assets held at an impaired store that are able to be redeployed throughout the Group are not impaired.

Impairment indicators were identified due to the impact of COVID-19 which resulted in temporary store closures and reduction in sales, as disclosed in note I2. The Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right of use assets.

The pre-tax discount rates used in determining the recoverable amount ranged between 8.2% and 13.4%, depending on the geographical segment of the assets.

Notes to the financial statements cont.

F5 Property, plant and equipment cont.

Depreciation methods and useful lives

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Plant and equipment 4 - 7 years
- Motor vehicles 3 - 5 years
- Fixtures and fittings 6 - 10 years
- Leasehold improvements 6 - 10 years
- Display materials 6 - 10 years

F6 Intangible assets

At 1 July 2019

	Patents, trademarks and other rights \$000	Computer software \$000	Total \$000
Cost	79	30,852	30,931
Accumulated depreciation and impairment	-	(15,492)	(15,492)
Net book amount	79	15,360	15,439

Year ended 28 June 2020

Opening net book amount	79	15,360	15,439
Additions	-	11,241	11,241
Disposals	-	3	3
Impairment charge	-	(3)	(3)
Amortisation charge	-	(2,251)	(2,251)
Closing net book amount	79	24,350	24,429

At 28 June 2020

Cost	79	39,383	39,462
Accumulated amortisation	-	(15,033)	(15,033)
Net book amount	79	24,350	24,429

Year ended 27 June 2021

Opening net book amount	79	24,350	24,429
Additions	-	12,597	12,597
Disposals	-	9	9
Impairment charge	-	-	-
Amortisation charge	-	(4,190)	(4,190)
Closing net book amount	79	32,766	32,845

At 27 June 2021

Cost	79	51,945	52,024
Accumulated depreciation and impairment	-	(19,179)	(19,179)
Net book amount	79	32,766	32,845

The Group is currently assessing the impact of the IFRIC agenda decision – Configuration or Customisation Costs in a Cloud Computing Arrangement, refer further detail note I1(r).

F7 Trade and other payables

	2021 \$000	2020 \$000
Trade payables	44,499	28,982
Annual leave liability	9,390	7,758
Accrued expenses	3,453	1,131
Other payables	16,619	26,601
	73,961	64,472

F8 Provisions

	Current \$000	Non-current \$000	2021 Total \$000	Current \$000	Non-current \$000	2020 Total \$000
Employee benefits	13,074	1,732	14,806	20,599	1,776	22,375
Assurance-type warranties	1,082	280	1,362	1,125	280	1,405
Make good provision	306	5,401	5,707	260	6,563	6,823
Restructuring costs	152	-	152	2,325	-	2,325
Diamond warranty	240	-	240	360	-	360
	14,854	7,413	22,267	24,669	8,619	33,288

	Employee benefits \$000	Assurance -type warranties \$000	Make good provision \$000	Restructuring costs \$000	Diamond warranty \$000	Total \$000
Movements in provisions						
Opening carrying amount	22,375	1,405	6,823	2,325	360	33,288
Changes in provisions recognised	719	(41)	(848)	-	-	(170)
Amounts incurred and charged	(8,284)	-	(246)	(2,145)	(120)	(10,795)
Exchange differences	(4)	(2)	(22)	(28)	-	(56)
Closing carrying amount	14,806	1,362	5,707	152	240	22,267

ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Employee benefits

Employee benefits includes provision for long service leave, revaluation of employee benefits in New Zealand and the provision for remediation. Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year.

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Assurance-type warranties

Provision is made for the estimated sale returns for the Group's return policies, being 12 month guarantee on the quality of workmanship and the 3 year watch guarantee. In addition, all Michael Hill watches sold before 30 June 2018 included a lifetime battery replacement guarantee. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

Make good provision

The Group has an obligation to restore certain leasehold sites to their original condition upon store closure or relocation. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both the cost of make good costs incurred and the costs incurred which mitigate the final liability prior to the closure or relocation.

Restructuring

A provision has been raised for the estimated staffing exit costs from business structure changes. Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

- there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and
- the employees affected have been notified of the plan's main features.

Notes to the financial statements cont.

F9 Tax

	2021 \$000	2020 \$000
INCOME TAX EXPENSE		
Current tax		
Current tax on profits for the year	5,481	2,488
Unrecognised tax losses utilised during the year	-	-
Adjustments for current tax of prior periods	40	650
Foreign income tax offsets not recognised	-	-
Total current tax expense	5,521	3,138
Deferred income tax		
(Increase)/decrease in deferred tax assets	14,002	(957)
Adjustments for deferred tax of prior periods	(44)	(755)
Total deferred tax expense/(benefit)	13,958	(1,712)
Income tax expense	19,479	1,426
NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit before income tax expense	64,807	4,486
Tax at the Australian tax rate of 30.0% (2020: 30.0%)	19,442	1,346
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenditure	145	279
Sundry items	(13)	(211)
	19,574	1,414
Difference in overseas tax rates	(64)	208
Adjustments for current tax of prior periods	40	650
Adjustments for deferred tax of prior periods	(44)	(755)
Utilisation of tax losses not recognised	(27)	(91)
Income tax expense	19,479	1,426
TAX LOSSES		
Unused United States tax losses for which no deferred tax asset has been recognised	32,369	35,745
Potential tax benefit @ 25.0%	8,092	8,936
Unused New Zealand tax losses for which no deferred tax asset has been recognised	2,639	2,651
Potential tax benefit @ 28.0%	739	742

The unused tax losses incurred in the United States and New Zealand are available indefinitely for offsetting against future taxable profits of the countries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is unknown when the New Zealand losses may be used to offset taxable profits and the United States losses are not expected to be used.

	2021 \$000	2020 \$000
DEFERRED TAX BALANCES		
The balance comprises temporary differences attributable to:		
Expected credit loss provision	377	485
Fixed assets and intangibles	8,536	8,190
Intangible assets from intellectual property transfer	19,705	22,723
Deferred expenditure	(310)	(478)
Prepayments	(7)	(19)
Deferred service revenue	1,379	235
Unearned income	-	-
Right-of-use assets	(31,798)	(37,091)
Lease liabilities	40,064	44,578
Provisions	20,190	20,757
Unrealised foreign exchange losses	885	(317)
Sundry items	(780)	(511)
Inventories	2,344	15,916
Net deferred tax assets	60,585	74,468
Expected settlement:		
Deferred tax assets expected to be recovered within 12 months	26,612	39,585
Deferred tax assets expected to be recovered after more than 12 months	33,973	34,883
	60,585	74,468
Movements:		
Opening balance at 29 June 2020	74,468	67,708
Credited/(charged) to the income statement	(14,003)	957
Adjustment on adoption of AASB16	-	5,375
Prior year adjustment	44	755
Foreign exchange differences	76	(327)
Closing balance at 27 June 2021	60,585	74,468

F10 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, Michael Hill International Limited, its related practices and non-related audit firms:

	2021 \$	2020 \$
Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the Company and its subsidiaries	554,541	535,506
Fees for other services – employment advisory	3,682	10,050
Total remuneration paid to Ernst & Young (Australia)	558,223	545,556

Notes to the financial statements cont.

F11 Contributed equity

	2021 Shares	2020 Shares	2021 \$000	2020 \$000
SHARE CAPITAL				
Ordinary shares - fully paid	388,142,149	387,769,105	11,285	11,016
Total share capital	388,142,149	387,769,105	11,285	11,016

Movements in ordinary shares:

	No. of shares	\$000
Opening balance at 1 July 2019	387,750,000	10,984
Rights converted	19,105	32
Balance at 28 June 2020	387,769,105	11,016
Rights converted	373,044	269
Balance at 27 June 2021	388,142,149	11,285

Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

Options

Information relating to the Michael Hill International Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note D3.

Rights issue

Information relating to share rights issued under the Company's deferred compensation plan, including details of rights issued, exercised and lapsed during the financial year and rights outstanding at the end of the financial year, is set out in note D3.

F12 Reserves

NATURE AND PURPOSES OF OTHER RESERVES

Cash flow hedges

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in note I1(i). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remunerations. Refer to note D3 for further details of these plans.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note I1(c) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

G Group structure

G1 Interests in other entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note I1(b):

	Country of Incorporation	Ownership interest held by the group	
		2021 %	2020 %
Michael Hill Jeweller (Australia) Pty Limited	Australia	100	100
Michael Hill Wholesale Pty Limited	Australia	100	100
Michael Hill Manufacturing Pty Limited	Australia	100	100
Michael Hill Franchise Pty Limited	Australia	100	100
Michael Hill Franchise Services Pty Limited	Australia	100	100
Michael Hill Finance (Limited Partnership)	Australia	100	100
Michael Hill Group Services Pty Limited	Australia	100	100
Michael Hill Charms Pty Limited	Australia	100	100
Michael Hill Online Pty Limited	Australia	100	100
Emma & Roe Pty Limited	Australia	100	100
Medley Jewellery Pty Limited	Australia	100	100
Durante Holdings Pty Limited	Australia	100	100
Michael Hill New Zealand Limited	New Zealand	100	100
Michael Hill Jeweller Limited	New Zealand	100	100
Michael Hill Finance (NZ) Limited	New Zealand	100	100
Michael Hill Franchise Holdings Limited	New Zealand	100	100
MHJ (US) Limited	New Zealand	100	100
Emma & Roe NZ Limited	New Zealand	100	100
Michael Hill Online Holdings Limited	New Zealand	100	100
Michael Hill Jeweller (Canada) Pty Limited	Canada	100	100
Michael Hill LLC	United States	100	100

G2 Deed of cross guarantee

Pursuant to ASIC Class Order 2016/785, the Australian wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and Directors' Report in Australia.

The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Medley Jewellery Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

The Class Order requires the Parent Company and each of the subsidiaries to enter into a Deed of Cross Guarantee. The effect of the deed is that the Company guarantees each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The above companies represent a Closed Group for the purposes of the Class Order and, as there are no other parties to the Deed of Cross Guarantee that are controlled by Michael Hill International Limited, they also represent the Extended Closed Group.

Notes to the financial statements cont.

G2 Deed of cross guarantee cont.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS, STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 27 June 2021 of the closed group consisting of Michael Hill International Limited and the entities noted above.

	2021 \$000	2020 \$000
Consolidated statement of profit or loss		
Revenue from sales of goods and services	431,904	370,986
Sales to Group companies not in Closed Group	47,254	30,941
Other income	15,212	15,703
Cost of goods sold	(206,747)	(175,412)
Employee benefits expense	(123,295)	(117,063)
Occupancy costs	(10,758)	(9,193)
Marketing expenses	(20,569)	(20,684)
Selling expenses	(14,480)	(15,223)
Depreciation and amortisation expense	(38,239)	(40,988)
Loss in disposal of property, plant and equipment	(384)	(454)
Other expenses	(9,949)	(17,588)
Finance costs	(5,363)	(6,949)
Profit before income tax	64,586	14,076
Income tax expense	(14,255)	(3,801)
Profit for the year	50,331	10,275
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	104	(23,808)
Other comprehensive income for the period, net of tax	104	(23,808)
Total comprehensive income for the year	50,435	(13,533)
Statement of changes in equity		
Equity at the beginning of the financial year	426,106	474,874
Change in accounting policy - adoption of AASB16	-	(23,574)
Total comprehensive income/(loss)	50,435	(13,533)
Share rights through share-based payments reserve	9	-
Option expense through share based payments reserve	-	(28)
Dividends paid	(5,820)	(11,633)
Total equity at the end of the financial year	470,730	426,106

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a consolidated statement of financial position as at 27 June 2021 of the Closed Group consisting of Michael Hill International Limited and the entities noted above.

	2021 \$000	2020 \$000
Current assets		
Cash and cash equivalents	17,190	6,915
Trade receivables	7,822	8,953
Inventories	133,096	144,719
Current tax receivables	580	-
Loans to related parties	279,769	231,628
Other current assets	3,455	1,980
Total current assets	441,912	394,195
Non-current assets		
Property, plant and equipment	21,219	26,004
Right-of-use assets	71,900	81,372
Investments in subsidiaries	87,834	87,834
Other non-current assets	1,117	1,465
Intangible assets	32,844	24,419
Deferred tax assets	53,489	64,952
Total non-current assets	268,403	286,046
Total assets	710,315	680,241
Current liabilities		
Trade and other payables	64,922	56,575
Lease liabilities	23,921	23,732
Current tax liabilities	-	8,260
Deferred revenue	18,925	17,456
Provisions	15,172	24,505
Total current liabilities	122,940	130,528
Non-current liabilities		
Lease liabilities	65,176	73,776
Deferred revenue	44,336	41,492
Provisions	7,133	8,339
Total non-current liabilities	116,645	123,607
Total liabilities	239,585	254,135
Net assets	470,730	426,106
Equity		
Contributed equity	310,275	310,006
Reserves	(24,789)	(24,633)
Retained profits	185,244	140,733
Net assets	470,730	426,106

Notes to the financial statements cont.

G3 Parent entity financial information

SUMMARY FINANCIAL INFORMATION

The individual financial statements for Michael Hill International Limited (the Parent) show the following aggregate amounts.

Statement of Financial Position	2021	2020
	\$000	\$000
Current assets	344	1,495
Non-current assets	452,206	464,727
Total assets	452,549	466,222
Current liabilities	521	6,153
Total liabilities	521	6,153
Net assets	452,028	460,069
Issued capital	291,445	291,158
Reserves	41,544	41,604
Retained earnings	119,039	127,307
Total equity	452,028	460,069

Statement of Profit or Loss and Other Comprehensive Income	2021	2020
	\$000	\$000
Profit or loss for the year	(8,268)	92,647
Total comprehensive income	(8,268)	92,647

GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The Parent has issued the following guarantees in relation to the debts of its subsidiaries:

- (i) Pursuant to Class Order 2016/785, Michael Hill International Limited and the subsidiaries listed below entered into a deed of cross guarantee on 30 June 2016. The effect of the deed is that Michael Hill International Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Michael Hill International Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.
- (ii) The subsidiaries subject to the deed are: Durante Holdings Pty Ltd, Michael Hill Group Services Pty Ltd, Michael Hill Jeweller (Australia) Pty Ltd, Michael Hill Manufacturing Pty Ltd, Michael Hill Wholesale Pty Ltd, Michael Hill Franchise Services Pty Ltd, Michael Hill Franchise Pty Ltd, Michael Hill New Zealand Ltd, Michael Hill Jeweller Ltd, Michael Hill Franchise Holdings Ltd, Michael Hill Finance (NZ) Ltd, Michael Hill Online Pty Ltd, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Medley Jewellery Pty Ltd, Michael Hill Online Holdings Ltd and Emma & Roe NZ Ltd.

CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Parent entity had no material contingent liabilities as at balance date.

H Unrecognised items

H1 Contingencies and commitments

CONTINGENT LIABILITIES

From time to time, Companies within the Group are party to various legal actions as well as inquiries from regulators and government bodies that have arisen in the normal course of business. The Directors have given consideration to such matters which are or may be subject to claims or litigation at year end and are of the opinion that any liabilities arising over and above already provided in the financial statements from such action would not have a material effect on the Group's financial performance.

The Group is not aware of any significant events occurring subsequent to balance date that have not been disclosed.

The Group had no material contingent liabilities as at balance date.

CONTINGENT ASSETS

The Group has no material contingent assets existing as at balance date.

COMMITMENTS

The following sets out the various lease contracts that the Group has entered into and have yet to commence as at 27 June 2021.

	Within one year \$000	One to five years \$000	Greater than five years \$000	Total \$000
Future lease payments for these non-cancellable lease contracts	3,111	11,745	9,539	24,395

H2 Events occurring after the end of the reporting period

The Group continues to operate in an environment of regional lockdowns due to the COVID-19 pandemic. Subsequent to reporting date, a number of regions in which the Australian and New Zealand businesses operate experienced periods of lockdown. This impacted the ability of the stores within those regions to remain open and trade.

No other matters or circumstances have occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Notes to the financial statements cont.

I Summary of accounting policies and significant estimates and judgements

11 Summary of significant accounting policies

(a) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements provide comparative information in respect of the previous period.

For reporting purposes, the Group adopts a weekly 'retail calendar' closing each Sunday. The current 52 week reporting period ended on 27 June 2021.

The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries are all entities (including special purpose) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the activities of the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset.

(c) FOREIGN CURRENCY TRANSLATION

Functional currency translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Net foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end of monetary assets and liabilities denominated in foreign currencies are recognised as other income or other expenses, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Group companies

The results and financial position of all the Group entities (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

(d) TAXES

Current income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation group

Michael Hill International Limited and its wholly-owned Australian controlled entities form a tax consolidation group. As a consequence, one income tax return is completed for the Australian tax group and is treated for income tax purposes as one taxpayer.

The tax balances have been attributed for reporting purposes to each of the entities on the basis of their individual results. Amounts of tax due to and receivable from the Australian Taxation Office are made by Michael Hill International Limited as nominated member of the Australian tax consolidated group. The current tax balance for the Australian tax group has been allocated between the members based on each entity's current tax movement for the period. Where tax losses are incurred by Australian tax group members, these are offset within the group.

(e) **GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or

- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(f) **IMPAIRMENT OF ASSETS**

At each annual reporting date (or more frequently if events or changes in circumstances indicate that they might be impaired), the Group assesses whether there is any indication that an asset may be impaired. Where such an indication is identified, the Group estimates the recoverable amount of the asset and recognises an impairment loss where the recoverable amount is less than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Where the recoverable amount exceeds the carrying amount of an asset, an impairment loss is recognised. Right-of-use assets are also incorporated into the calculation. Subsequent to an impairment occurring, if the recoverable amount from assets exceeds the carrying value, the impairment loss is reversed to the extent that it has been recognised.

(g) **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position when utilised.

(h) **INVENTORIES**

Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Management review stock holdings based on recoverability at a product level and write-down as appropriate.

Notes to the financial statements cont.

11 Summary of significant accounting policies cont.

(i) FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

(i) FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through Other Comprehensive Income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB15 *Revenue from Contracts with Customers*. Refer to the accounting policies in note A2.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'Solely Payments of Principal and Interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Whilst there are four categories, two are relevant in the current reporting period for the Group, being:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the Effective Interest Rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables included under current and non-current financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in note F3.

The Group recognises an allowance for Expected Credit Losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB9 *Financial Instruments*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB9 *Financial Instruments* are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note B2.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(i) PROPERTY PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Notes to the financial statements cont.

11 Summary of significant accounting policies cont.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives (Note F5).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note I1(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(k) INTANGIBLE ASSETS

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding ten years).

(l) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Present obligations arising from onerous contracts are required to be recognised and measured as a provision. An onerous contract is considered to exist where the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(m) EMPLOYEE ENTITLEMENTS

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year and are measured at the amounts expected to be paid when the liabilities are settled.

Provisions for employee benefits are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the reporting date.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the year in which the employees render the related service are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting year using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using the Milliman G100 discount rates at the end of the reporting period. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting year, regardless of when the actual settlement is expected to occur.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Retirement benefit obligations

The Group provides retirement benefits to employees through a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable.

(n) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Michael Hill International Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Michael Hill International Limited.

(o) DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting year but not distributed at the end of the reporting year.

(p) EARNINGS PER SHARE**Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note F2).

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares (note F2).

(q) ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(r) CHANGES IN ACCOUNTING POLICIES & DISCLOSURES
IFRIC agenda decision – Configuration or Customisation Costs in a Cloud Computing Arrangement**

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to implementing Software as a Service (SaaS) arrangements. The Group is currently assessing the impact of the agenda decision on its current accounting policy, which may result in previously capitalised costs needing to be recognised as an expense.

The process to quantify the impact of the decision is ongoing. A project team has been appointed and a timeline has been determined. The project is ongoing due to the effort required in obtaining the underlying information from historical records covering multiple projects and assessing the nature of each of the costs.

At the date of this report, the impact of the IFRIC agenda decision on the Group is not reasonably estimable.

IFRIC agenda decision – Net Realisable Values of Inventory

In June 2021, IFRIC published an agenda decision in relation to the accounting treatment when determining net realisable value (NRV) of inventories, in particular what costs are necessary to sell inventories under IAS2 Inventories. The Group is currently assessing the impact of the agenda decision will have on its current accounting policy and whether an adjustment to inventory may be necessary. Accordingly, a reliable estimate of the impact of the IFRIC agenda decision on the Group cannot be made at the date of this report, however based on preliminary analysis performed, the Group isn't expecting a material impact from the adoption of the IFRIC agenda decision. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its half-yearly reporting.

Several other amendments and interpretations apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Notes to the financial statements cont.

12 Significant estimates and judgements

Significant Estimates And Judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are incorporated within the relevant note.

The significant accounting judgements relate to the accounting for COVID-19 related lease concessions (note A5) and assets held for sale (note F4) and the significant accounting estimates were in relation to the pattern of PCP revenue recognition (note A2), employee remediation (note F8) and the valuation of the assets held for sale (note F4).

Impact of COVID-19

The uncertainty surrounding the trading environment for the Group has impacted Management's approach to forecasting, modelling cash flows and other accounting estimates.

The Group continues to monitor the situation throughout the geographies in which it operates. Uncertainty remains as to the future impact of COVID-19 and the ability to operate bricks-and-mortar stores during this period. The Group continues to adhere to local and national government guidance in relation to any future impacts which would temporarily close stores.

During the period, the Group received financial support and assistance from its suppliers, landlords, and local governments. A number of landlords and suppliers provided extended payment terms. These agreements have concluded with no material amounts outstanding. Additionally, landlords have provided support in the form of rental abatements. These amounts have been disclosed in note A5. Government grants were received during the period and further information can be found in note A3.

Directors' declaration

In the Directors' opinion:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) the financial statements and notes of the Group for the financial year ended 27 June 2021, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 27 June 2021 and of its performance for the financial year ended on that date;
- (c) as at the date of this declaration, there are reasonable grounds to believe that the members of the extended Group identified in note G1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note G2.

Note I1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



R. I. Fyfe, Chair
Brisbane, 20 August 2021

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Independent auditor's report to the members of Michael Hill International Limited Report on the audit of the financial report

OPINION

We have audited the financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 27 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) Giving a true and fair view of the consolidated financial position of the Group as at 27 June 2021 and of its consolidated financial performance for the year ended on that date; and
- b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

EXISTENCE OF INVENTORIES

Why significant

The existence of inventories is a key audit matter due to the size of the recorded asset (27 June 2021: \$171,246,000) which represents 34% (2020: 36%) of the Group's total assets, the nature of the inventory and the geographic spread of locations where items are held.

Inventories are primarily kept in the Group's 285 retail stores located in Australia, New Zealand and Canada, and the distribution and manufacturing centres. Inventories comprise a large number of physically small but high value items which are subject to misappropriation and other loss.

As a result, we considered the evidencing of the existence of the Group's inventory at 27 June 2021 to be a key audit matter.

The Group accounts for inventories in accordance with the policy disclosed in Note 11(h) and further disclosure is included in Note A4 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Testing the effectiveness of key controls relevant to the conduct of physical stocktakes, the review and investigation of stocktake variances, and the approval of adjustments made to stock quantities.
- In performing our testing, we attended 12 stocktakes conducted at retail stores across Australia, New Zealand and Canada, of which two were conducted virtually due to COVID-19 restrictions.
- In addition to the retail stores, we attended the stocktakes completed at the distribution and manufacturing centres in June 2021.
- At these stocktakes at the retail stores, distribution and manufacturing centres, we observed compliance with the stocktake instructions (including the suspension of inventory movements during the stocktake process) and selected a sample of items to re-count to establish the accuracy of the counts performed by the Group.
- For each of these locations attended, and for a further representative sample of retail stores, we inspected evidence that stocktakes had been conducted, stock variances identified had been reviewed and approved, and that the adjustments were accurately recorded.
- Where stocktakes were completed prior to the year end date, we performed inventory movement analysis and, on a sample basis, evidenced changes in inventory quantities to evaluate the movement of inventories between the stocktake date and year end date. For retail locations not attended at stocktake, we performed movements analysis on a store-by-store basis and further analysis where the year end balance was outside our set expectations.
- We obtained details of stock-in-transit at year end, as well as movements either side of the year end date and performed procedures to address the risk of incorrect cut-off of inventory quantities at year end.

PROFESSIONAL CARE PLAN (PCP) REVENUE RECOGNITION

Why significant

The recognition of Professional Care Plan (PCP) revenue is a key audit matter due to the significant degree of estimation involved in determining the appropriate revenue recognition pattern for both the lifetime and three year plans offered to the Group's customers. Under these plans, revenue is deferred on receipt of the payment from the customer, and recognised over time in a manner that reflects the proportion of actual services used by customers relative to the total amount of expected services to be provided under the PCPs.

The balance of the deferred PCP revenue liability at 27 June 2021 was \$76,581,000 (2020: \$73,856,000), and PCP revenue recognised in the income statement for the year ended 27 June 2021 was \$27,310,000 (2020: \$27,478,000).

The estimation is primarily based on an analysis of actual services (through historical cleaning, repairs and re-sizing service data) made under these plans since inception in October 2010, with Management judgement applied to take account of emerging trends in customer behaviour, industry data and exceptional circumstances such as COVID related store closures.

The estimation is reviewed by the Group on at least an annual basis. As circumstances change over time, the Group updates its measure of progress and any adjustments are recognised as a cumulative catch up in revenue recognition (or reversal) in the current year results. In the current year, a total of \$1,305,000 was reversed from revenue due to the changes in estimates.

The accounting policy for PCP revenue and description of the estimation uncertainty is disclosed in Note A2 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Considered the Group's PCP revenue recognition accounting policies and assessed compliance with the requirements of Australian Accounting Standards.
- Tested the operating effectiveness of controls related to PCP customer transactions to ensure these sales are captured accurately, and the related cash receipts are deferred on receipt.
- Assessed the accuracy of the data used in the PCP revenue estimation calculation and challenged the reasonableness of the key judgements including:
 - Obtaining details of the sales of PCP products to customers during the year, and testing that the cash receipts were appropriately deferred.
 - Obtaining details of the actual cleaning, repairs and resizing services in the year, and tested a sample to ensure the repair is accurately tagged to the associated PCP plan date.
 - Performing analysis over the historic repairs data, to determine whether the assumptions made by Management were supportable, including the length of the lookback period, any adjustments made for the impact of COVID related store closures, and the weighting of recent trends compared to older data.
- Tested the mathematical accuracy of the PCP revenue estimation model and reperformed the Group's calculation supporting the change in estimate relating to PCP revenue recognition.
- We evaluated the adequacy of disclosures in financial statements of PCP revenue recorded and deferred at year end and the associated estimation uncertainty.

INFORMATION OTHER THAN THE FINANCIAL REPORT AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2021 annual report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 27 June 2021.

In our opinion, the Remuneration Report of Michael Hill International Limited for the year ended 27 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

McKenzie

Kellie McKenzie, Partner
Brisbane
20 August 2021

Additional Information AS AT 27 AUGUST 2021

Michael Hill has one class of shares on issue (being ordinary shares). The Company's shares are listed on the Australian Securities Exchange and the New Zealand Stock Exchange.

	Number
Issued capital	388,285,374
Number of shareholders	4,325
Minimum Parcel Price	\$0.850
Holders with less than a marketable parcel	304

Twenty largest shareholders

	Fully Paid Ordinary Shares	% of Fully Paid Ordinary Shares
Hoglett Hamlett Limited*	148,330,600	38.20
Citicorp Nominees Pty Limited	26,332,599	6.78
Squeakidin Limited*	19,156,926	4.93
New Zealand Central Securities Depository Ltd	17,310,944	4.46
HSBC Custody Nominees (Australia) Limited	16,255,850	4.19
J P Morgan Nominees Australia Pty Limited	14,197,982	3.66
Mole Hill Limited*	13,456,926	3.47
Forsyth Barr Custodians Limited	5,298,992	1.36
BNP Paribas Nominees Pty Ltd	4,024,466	1.04
BNP Paribas Nominees (NZ) Ltd	3,908,556	1.01
New Zealand Depository Nominee Limited	3,367,192	0.87
National Nominees Limited	3,117,214	0.80
BNP Paribas Nominees Pty Ltd	2,639,066	0.68
Vanward Investments Limited	2,298,056	0.59
FNZ Custodians Limited	2,295,017	0.59
BNP Paribas Nominees Pty Ltd	2,251,174	0.58
Mole Hill Limited*	2,250,376	0.58
Forsyth Barr Custodians	2,011,138	0.52
Hobson Wealth Custodian Limited	1,847,252	0.48
Custodial Services Limited	1,595,127	0.41
Total	291,945,453	75.19
Total Remaining Holders Balance	96,339,921	24.81

* Denotes entities in which a member or members of the Hill family have an ownership interest.

Distribution Of Security Holders

	Number of holders of fully paid ordinary shares	Number of of fully paid ordinary shares
1 - 1,000	636	381,487
1,001 - 5,000	1,343	4,098,976
5,001 - 10,000	824	6,793,757
10,001 - 100,000	1,353	42,876,743
Over 100,000	169	334,134,411
Total	4,325	388,285,374

Unmarketable parcels

	Minimum parcel size	Holders	Units
Minimum \$500.00 parcel at \$0.85 per unit	589	304	83,702

Substantial holders

As at 27 August 2021, there are four substantial shareholders that Michael Hill is aware of:

	Latest notice date	Shares
Hoglett Hamlett Limited and others*	13 October 2016	148,330,600
Mark Simon Hill	13 October 2016	167,487,526
Emma Jane Hill	13 October 2016	167,487,526
Spheria Asset Management Pty Ltd	15 April 2021	50,814,123

* Includes: Hoglett Hamlett Limited (New Zealand incorporated company with company number 5994887), Sir Richard Michael Hill, Lady Ann Christine Hill and Veritas Hill Limited (New Zealand incorporated company with company number 2303840).

The above table sets out the number of securities held by substantial shareholders in Michael Hill as disclosed in their last substantial shareholder's notice. Those shareholders may have acquired or disposed of securities in Michael Hill since the date of that notice. A substantial shareholder is only required to disclose acquisition or disposals where there has been a movement of at least 1% in their shareholding.

Share Options and Rights

Michael Hill has unlisted share options and rights on issue. As at 27 August 2021, there were six holders of share options and rights.

Corporate directory

DIRECTORS

R.I. Fyfe BEng, FENZ (Chair)
Sir R.M. Hill KNZM
E.J. Hill BCom, MBA
G.W. Smith BCom, FCA, FAICD
J.E. Naylor
D. Bracken

COMPANY SECRETARIES

A. Lowe
BCom, LLB (Hons), MAppFin, CA, CTA
E. Bird LLB (Hons), BA (Psych),
GradDipLegalPrac, GradDipAppCorpGov

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+61 3 9415 4000
(outside Australia)

AUDITOR

Ernst & Young
Level 51
111 Eagle Street
Brisbane QLD 4000

SOLICITOR

Allens
Level 26
480 Queen Street
Brisbane QLD 4000

BANKERS

Australia and New Zealand
Banking Group Limited
ANZ Banking Group
(New Zealand) Limited
HSBC Australia Limited
Bank of Montreal
Bank of America

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Michael Hill
INTERNATIONAL LIMITED